

stelco

AR26

Annual Report 1983



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Stelco Inc.

Stelco Inc. was formed in 1910 as The Steel Company of Canada, Limited when several steel companies in Ontario and Quebec merged their operations so that full advantage could be taken of the strides in 20th century steelmaking technology. In 1910, the Corporation accounted for about 10% of the country's steel ingot production. Today, Stelco is Canada's leading steelmaker, producing approximately 35% of the nation's steel.

Cover

Illustrating the quality control carried out at every stage of Stelco's manufacturing operations is this scene at No 3 Galvanizing Line, Hilton Works, where a coil is being inspected and tested for gauge accuracy before shipment. Some of the many and varied forms of quality control in steel production and applications are depicted in this issue of the Stelco Annual Report. Several customers' products and facilities are featured; we thank these companies for their assistance and generous cooperation.

Pour obtenir un exemplaire de la version française de ce rapport veuillez écrire au secrétaire,
Stelco Inc.
C.P. 205, Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4

J. P. Gordon
Chairman and Chief Executive Officer
Stelco Inc.

Head Office
P. O. Box 205
Toronto Dominion Centre
Toronto, Ontario
M5K 1J4
(416) 362-2161

March 7, 1983

TO OUR HOLDERS OF COMMON SHARES

The working capital requirements of Stelco make it desirable to raise additional capital at this time. Your Company is contemplating a public offering of its common shares plus warrants and has today filed a preliminary prospectus with the provincial Securities Commissions in Canada.

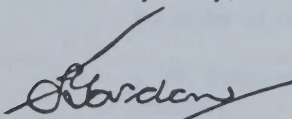
The preliminary prospectus contains, as required by law, the year-end financial results for the Company. A summary of those results was publicly released on February 17, 1983 and a copy of that summary is enclosed for your information.

The Board of Directors believes that, if additional equity capital can be raised by an underwritten public offering of common shares and warrants, it will be to the overall benefit of shareholders. Provided market conditions are considered favourable, the amount of the offering and the final terms will be established just prior to the filing of the final prospectus in April.

The issue will be underwritten and offered to the public by a group of investment dealers headed by Wood Gundy Limited, Dominion Securities Ames Limited and McLeod Young Weir Limited. Stelco naturally wishes to provide the opportunity for existing shareholders to participate in the issue. If you are interested in doing so, please return the enclosed reply card or, alternatively, you may wish to obtain a copy of the preliminary prospectus from one of the underwriters or your investment dealer. Every reasonable effort will be made to accommodate existing shareholders who wish to participate.

We appreciate the support of our shareholders and accordingly felt that you should be aware of the proposed financing.

Yours very truly,



J. P. Gordon
Chairman of the Board of Directors
Chief Executive Officer

A preliminary prospectus relating to the common shares has been filed with securities commissions or similar authorities in all provinces of Canada but has not yet become final for the purpose of a distribution to the public. This letter shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale or any acceptance of an offer to buy these common shares in any province of Canada prior to the time a receipt for the final prospectus or other authorization is obtained from the securities commission or similar authority in such province.

The additional common shares and warrants will not be qualified for sale under applicable U.S. securities laws and will not be offered or sold directly or indirectly in the U.S., its territories or possessions or the nationals or residents thereof.

**Stelco Inc.**

NOTICE OF THE ANNUAL MEETING

Notice is hereby given that the Annual Meeting of the Shareholders of Stelco Inc. will be held at Commerce Hall, Concourse Level, Commerce Court West, King and Bay Streets, in the City of Toronto, Ontario, at the hour of 10:30 a.m., local time, on Monday, April 25, 1983 for the following purposes:

1. to receive the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1982;
2. to elect Directors;
3. to appoint Auditors; and
4. to transact such other business as may properly be brought before the meeting.

Proxies must be delivered to the Secretary of the Corporation not later than 11:00 a.m., local time, on Friday, April 22, 1983.

Dated at Toronto this 25th day of March, 1983.

By order of the Board of Directors

J. W. YOUNGER, Q.C.
Secretary

IMPORTANT

It is desirable that as many shares as possible be represented at the meeting. If you do not expect to attend, and would like your shares represented, please sign the enclosed proxy and return it as soon as possible in the envelope provided.

Stelco Inc.

Management Proxy Circular

REVOCABILITY OF PROXY

A proxy given pursuant to this solicitation may be revoked under subsection 142 (4) of the Canada Business Corporations Act by instrument in writing executed by the Shareholder or by his attorney authorized in writing and deposited either at the registered office of Stelco Inc. (hereinafter called "the Corporation") at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used, or with the Chairman of such meeting on the day of the meeting or adjournment thereof.

PERSONS MAKING THE SOLICITATION

This solicitation is made by or on behalf of the management of the Corporation for use at the Annual Meeting of the Shareholders of the Corporation to be held on April 25, 1983 (hereinafter called "the Meeting") and at every adjournment thereof. Solicitation will be primarily by mail but proxies may also be solicited personally by regular employees of the Corporation at nominal cost. The cost of solicitation will be borne by the Corporation.

VOTING RIGHTS

On March 7, 1983 there were outstanding 24,266,512 Series A Convertible Common Shares and 592,949 Series B Convertible Common Shares (hereinafter referred to collectively as the "Common Shares"); 8,000,000 Series A Preferred Shares, 1,860,950 Series B Preferred Shares, 5,935,104 Series C Convertible Preferred Shares, 4,213,500 Series D Preferred Shares and 3,400,000 Series E Preferred Shares. The Common Shares together with any additional Common Shares which may be issued by April 25, 1983 are entitled to be voted at the Meeting. Each Shareholder is entitled to one vote for each Common Share registered in his name at the date of the Meeting. The holders of Series A Preferred Shares, Series B Preferred Shares, Series C Convertible Preferred Shares, Series D Preferred Shares and Series E Preferred Shares are not entitled to attend or to vote at the Meeting.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Corporation provides Directors' and officers' liability insurance with a policy limit of \$5,000,000 per occurrence subject to a deductible of \$50,000 per occurrence. Under this insurance coverage the Corporation is reimbursed for payments made under corporate indemnity provisions on behalf of its Directors and officers and individual Directors and officers are reimbursed for losses arising during the performance of their duties for which they are not

indemnified by the Corporation. Protection is provided to Directors and officers for acts, errors or omissions done or committed during the course of their duties as such. Excluded from coverage under the policy are illegal acts and those acts which result in personal profit. This coverage forms part of the Corporation's general third party liability risk insurance and while no part of the premium chargeable to the Corporation in connection with such coverage is specifically allocated to Directors' and officers' liability insurance, that part of the premium which is estimated to be referable to such Directors' and officers' liability insurance in the last completed financial year is \$12,000 all of which was paid by the Corporation.

PRINCIPAL HOLDERS OF SHARES

Neither the Directors nor officers of the Corporation know of any person or any person and his associates who beneficially owns, or exercises control or direction over, shares carrying more than 10% of the voting rights attached to shares of the Corporation.

APPROVAL OF THE ANNUAL REPORT AND FINANCIAL STATEMENTS

A majority of the votes duly cast at the Annual Meeting in accordance with the by-laws of the Corporation is required for the approval of the Annual Report of the Directors to the Shareholders and the Financial Statements for the last completed financial year.

ELECTION OF DIRECTORS

The affairs of the Corporation are managed by a Board of 15 Directors who are elected annually at each Annual Meeting of Shareholders to hold office until the next Annual Meeting and until their successors shall have been duly elected. The following table sets out the name of each of the persons proposed to be nominated by management for election as a Director, his present principal occupation, all other major positions and offices with the Corporation and any significant affiliate thereof presently held by him, the period or periods of service as a Director of the Corporation and the approximate number of shares of the Corporation that he has advised are beneficially owned by him or over which he exercises control or direction as of March 7, 1983. Each of such persons now is a Director and has served continuously in that capacity since his first election.

Name	Present principal occupation	Director since	Approximate number of shares owned as of March 7, 1983.		
			Series A Convertible Common	Series B Convertible Common	Preferred Shares (Series)
*J. D. Allan	President and Chief Operating Officer of the Corporation. Director and President of Stelco Coal Company (holding company), Director and President of Stelco Coal Holding Company (holding company)	1975	1,800		
‡Alex E. Barron	President, Canadian General Investments Limited (closed end investment trust)	1979	1,000		
*A. Jean de Grandpré, O.C., Q.C.	Chairman of the Board and Chief Executive Officer, Bell Canada (telecommunications)	1976	125		
‡Thomas M. Galt	Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada (life insurance)	1980	1,000		
*J. Douglas Gibson, O.B.E.	Corporate Director	1968	2,200		
*J. Peter Gordon	Chairman of the Board and Chief Executive Officer of the Corporation, Director and Chairman of the Board of Stelco Coal Company (holding company), Director and President of Pikeville Coal Co. (holding company), Director and Chairman of Stelco Coal Holding Company (holding company)	1970	5,200		1,000 (C)
*A. J. MacIntosh, Q.C.	Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors	1972	250		
†Senator The Hon. Ernest C. Manning, P.C., C.C.	Chairman, Manning Consultants Limited (consultants)	1969	10		
Frederick C. Mannix	Corporate Director	1967		225	
‡†William F. McLean	Corporate Director	1976	100	5,665	
*†D. R. McMaster, Q.C.	Counsel, Messrs. McMaster Meighen, Barristers & Solicitors	1962	54,775		
L. G. Rolland	President and Chief Executive Officer, Rolland inc. (manufacturer and distributor of fine papers)	1963	100		
Henry G. Thode, C.C., Ph.D., F.R.S.	Professor Emeritus McMaster University	1969	1,000		1,000 (E)
†Kenneth A. White, C.D.	Chairman of the Board Royal Trustco Limited (trust company group)	1974	100		
*William H. Young	President, The Hamilton Group Limited (holding company)	1967	500		

*Member of the Executive Committee

†Member of the Audit Committee

‡Member of the Compensation and Manpower Resources Committee

If any of the above nominees is for any reason unavailable to serve as a Director, proxies in favour of management will be voted for another nominee in their discretion unless the Shareholder has specified in the proxy that his shares are to be withheld from voting in the election of Directors.

DIRECTORS' AND OFFICERS' REMUNERATION

Nature of remuneration earned

	Directors' Fees	Salaries	Bonuses	Non-accountable expense allowance	Other	Total
REMUNERATION OF DIRECTORS AS SUCH (A) Number of Directors: 15 (B) Body Corporate incurring the expense: Stelco Inc.	\$152,100	Nil	Nil	Nil	Nil	\$ 152,100
REMUNERATION OF OFFICERS AS SUCH (A) Number of officers: 16 (B) Body Corporate incurring the expense: Stelco Inc.	Nil	\$1,931,728	Nil	Nil	Nil	\$1,931,728
TOTALS	\$152,100	\$1,931,728	Nil	Nil	Nil	\$2,083,828

The estimated aggregate cost to the Corporation and its subsidiaries in the last completed financial year of all benefits proposed to be paid under any pension or retirement plan upon retirement at normal retirement age to Directors and officers of the Corporation and each affiliate of the Corporation as a group: \$229,493.

Aggregate of all remuneration payments other than those referred to above made during the Corporation's last completed financial year and proposed to be made in the future by the Corporation or any of its subsidiaries pursuant to an existing plan to the Directors and officers of the Corporation and each affiliate of the Corporation: Nil

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The management of the Corporation is not aware of any material interest of any Director or officer of the Corporation, any proposed management nominee for election as a Director of the Corporation or any associate or affiliate of any such person in any transaction since the beginning of the last completed financial year of the Corporation or in any proposed transaction that has materially affected or will materially affect the Corporation or any of its affiliates within the meaning of Section 35 (w) of the Canada Business Corporations Act Regulations.

GENERAL

Shares represented by properly executed proxies in favour of the persons designated in the enclosed form will be voted for the election of Directors and the appointment of Auditors or withheld from voting if so indicated by the Shareholder on the form of proxy. Where the Shareholder executing a proxy specifies a choice with respect to any matter to be acted upon at the Meeting, other than the election of Directors and the reappointment of Thorne Riddell as Auditors, such shares will be voted in accordance with any specification so made. In the absence of such specification such shares will be voted for the approval of the Annual Report of the Directors to the Shareholders and the Financial Statements for the year ended December 31, 1982.

The enclosed proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of Meeting and other matters which may properly come before the Meeting. At the date of this Circular, the management of the Corporation is not aware that any such amendments, variations or other matters are to be presented for action at the Meeting.

A proxy to be used at the Meeting must be deposited with the Secretary of the Corporation not later than 11:00 a.m., local time, on Friday, April 22, 1983.

The contents and the sending of this Circular have been approved by the Directors of the Corporation.

Toronto, Ontario
as of March 7, 1983.

J. W. Younger, q.c.
Secretary

Stelco Inc. Annual Report 1983

stelco

Year ended December 31, 1983

Highlights

Dollars in millions except as indicated*

		1983	1982	% Change Increase (Decrease)
Financial				
Sales	\$	2,033.2	2,020.3	1
Net Income (Loss)	\$	(14.2)	(40.8)	
Per cent of sales	%	(0.7)	(2.0)	
† Per common share —	*\$	(2.32)	(3.69)	
— fully diluted	*\$	N/A	N/A	
Dividends declared — preferred	\$	52.0	51.1	2
— common	\$	28.9	24.8	17
Per common share	*\$	1.00	1.00	
Common shareholders' equity	\$	981.0	925.5	6
Per common share	*\$	32.35	37.25	
Capital expenditures	\$	44.9	163.2	(72)
Depreciation	\$	103.8	101.0	3
Operations				
Materials and services bought and used	\$	1,175.1	1,189.3	(1)
Total employment costs	\$	782.6	799.7	(2)
Average number of employees		19,519	22,104	(12)
Raw steel produced — thousands of net tons		4,778	4,592	4
Steel shipments — thousands of net tons		3,598	3,575	1
Distribution of Total Revenue				
Purchase of goods, supplies and services	%	55	56	
Wages, salaries and employee benefits	%	38	38	
Depreciation	%	5	5	
Interest on long-term debt	%	3	3	
Federal, provincial and municipal taxes				
— income taxes	%	(2)	(3)	
— other taxes	%	2	3	
Dividends	%	4	4	
Earnings withdrawn from the business	%	(5)	(6)	
	%	100	100	

† After preferred dividends. (See Note 1 on page 21 for explanation of computation of net income (loss) per common share.)

A report from the Chairman of the Board

A halting economic recovery from deep recession began in Canada in the first quarter of 1983 and gained momentum as the year progressed, stimulating increased steel demand from consumer-related markets, primarily automotive, housing and appliances. By year-end, the Canadian steel industry was operating at 60% of its capacity, but shipments varied considerably by product line as little improvement was experienced in some of Stelco's major steel markets — notably heavy construction, pipelines, farm machinery and rail-car building. Canadian raw steel production for the year was 14.0 million tons, 8% ahead of a very depressed 1982. Domestic shipments rose to 8.8 million tons from 7.6 million tons in 1982. Imports of rolled steel products at 1.1 million tons were marginally ahead of 1982 and represented 11% of apparent Canadian consumption. Unlike the past two years' experience, Canadian Steel Mills were affected by a sharp decline of export shipments to world markets where severe price competition precluded booking opportunistic orders. Shipments to the United States increased, primarily as a result of movement of semi-finished steel to American mills which represented 41% of total Canadian direct mill exports to that country.

Early in the year, 1983 was viewed as being not a year of cure, but one of gradual recovery from a period of extreme hardship which began in August of 1981. This recovery is still in progress. While net sales for the year rose slightly to \$2.03 billion from \$2.02 billion in 1982, the Corporation sustained a net loss of \$14.2 million, or \$66.3 million after preferred dividends. The net loss per common share of \$2.32, however, was less than the \$3.69 per share loss experienced in 1982. Although the unequal consumer-based recovery brought with it an improvement in our flat rolled order volume, continued weakness in demand for capital goods, particularly plate and large diameter pipe, affected overall corporate financial results negatively. The absence of overseas export opportunities that existed in 1982 adversely affected volume. Pressure on almost all product selling prices, combined with increased costs, continued to squeeze margins severely.

To combat the effects of these and other negative external influences, Stelco management in 1983 concentrated on the implementation and refinement of strategies adopted in 1982. The specific actions taken are found elsewhere in this Report, but broadly, they relate to cost reduction and cash conservation; the optimization of existing facilities; the formation of strategic business units; the strengthening of employee relations; emphasis on product quality and customer service; and support for the initiation of anti-dumping suits against unfairly priced steel imports. These strategies are not expedient, temporary measures, but rather have been undertaken with the recognition that the future health of the Corporation depends on management initiatives having a long-term horizon.

These steps are absolutely essential in the context of the inexorable rationalization and changes that are underway in the world steel industry which is plagued with problems of overcapacity, price cutting and massive financial losses. In 1983, western world steel consumption was 439 million tons and the International Iron and Steel Institute's forecast for 1984 is 496 million tons. It has been clear for some years that Third World and newly industrialized countries were emerging as major exporters of steel products. Such activity gained momentum in 1983 and will continue, as pressure mounts on these countries to earn foreign exchange to service substantial debts. Third World steel capacity is being added without apparent regard for the economic realities of cost, price and demand. World overcapacity is estimated currently at about 120 million tons, despite the fact that major facilities have been closed permanently in Europe, Japan and the United States and further closures are expected.

The Canadian steel industry is facing the problem that is common to its counterparts across the world — a broadly based lack of demand. The major challenge for management is to ensure that future effort is directed toward improved efficiency and the relentless search for, and application of, new processes, new methods, new technology, and new techniques. If Stelco is to remain competitive, it must, in addition, concentrate attention on enhancing productivity both from facilities and from people. Stelco management is emphasizing these requisites and is confident that its actions in 1983 and 1984 will bear fruit in returning the Corporation to profitability, given a favourable economic climate and the conclusion of an early and equitable labour agreement with the United Steel Workers in 1984. This latter is a prime objective.

Canadian industry, including steel, cannot emerge from its difficulties without the understanding and support of governments, operating within an enlightened policy framework. The recent recession has served to emphasize this to policymakers who have become more cognizant of the importance of the private sector's contribution to the economy. The environment for business must be improved to allow the country to achieve sustained, non-inflationary growth and improved international competitiveness.

Governments must continue to develop policies which encourage private enterprise and allow market forces to operate. They must abstain from public funding of hopelessly weak industries and companies.

Hand-in-hand with these policies, it is vital to improve Canada/U.S. economic relations, thus ensuring American markets for our manufactured products.

It is hoped that the Macdonald Royal Commission's recommendations will support such views and establish a path for Canada's economic future that recognizes the crucial part to be played by efficient and cost-competitive manufacturers.

Paramount to the realization of these objectives must be an avoidance of another recessionary cycle. This will require that emphasis be placed on new capital investment, particularly in oil and gas development, the containment of inflation and public sector fiscal restraint and deficit reduction.

The economic outlook for Canada in 1984 is better than it has been for several years. The prospect is for sustainable growth although there are concerns that 1983's momentum may be slowed by the perceived weakness in capital spending. The condition of the North American auto industry will remain a key factor. Most observers are not forecasting any significant decline in interest rates and high unemployment is expected to continue.

The Canadian steel industry is not predicting a return to pre-recession conditions in 1984. The current forecast for industry shipments is 9.7 million tons, a 10% increase over 1983. Continued lowering of the rate of inflation will fuel the confidence that is required to encourage capital spending to improve facilities for manufacturing companies across the country. There has been a significant improvement in this regard during 1983 and its importance to the recovery cannot be overstressed.

Continued emphasis on cost control, quality, and reliability will be necessary prerequisites in a year which will be one of consolidation for the Corporation. Every effort will be made to keep our export markets open, particularly in those areas where we have traditionally enjoyed substantial reciprocal trade. It will, however, be difficult to increase our overseas exports in the light of existing world conditions. Stelco is confident that, as the economy continues to improve, the strategies which have been put in place and the continuing adoption of the latest world-wide technology will enhance its position.

Your Directors understand that the events of 1983 exerted considerable pressure on customers, employees, and suppliers, and appreciate their efforts and continuing support.



Chairman of the Board and
Chief Executive Officer

Toronto, March 5, 1984

A report from the President

Introduction

Management's activities in 1983 were focussed on the development and implementation of strategies to lower the Corporation's fixed costs, return Stelco to profitability and establish a solid base of efficiency and competitiveness for the years ahead.

Significant administrative and operating cost reductions were achieved. Capital spending was curtailed. Comprehensive product and facility reviews were conducted by task forces to recommend changes and consolidation of products and plants. The profit-centre concept, introduced in 1983 by the formation of an autonomous business unit for fasteners and forgings will be extended to wire lines in 1984. The enhancement of product quality has been a major objective of operating, research and technical management. Communications programs have been developed to inform employees of the Corporation's plans and progress.

Sales and production

Stelco's sales revenue of \$2,033.2 million was only marginally higher than the \$2,020.3 million in 1982. Steel shipments were 3,598 thousand tons, a slight increase from the 3,575 thousand tons shipped in 1982.

Raw steel production for the year was 4,778 thousand tons which is a moderate increase over the 4,592 thousand tons produced in 1982. These figures include production from Lake Erie Works which was 1,301 thousand tons compared to 842 thousand tons in 1982.

Net income (loss)

Net income was affected adversely by the low level of operations, particularly at Hilton Works and the large diameter pipe mills. In addition, severe competition prevented the Corporation from obtaining price increases necessary to recover escalating costs, including August 1, 1983 wage increases paid to bargaining unit personnel under terms

of the collective agreements. As a result, the Corporation experienced a consolidated net loss of \$14.2 million compared with a consolidated net loss of \$40.8 million in 1982. Of the 1983 loss, \$14.6 million was reported for the first quarter.

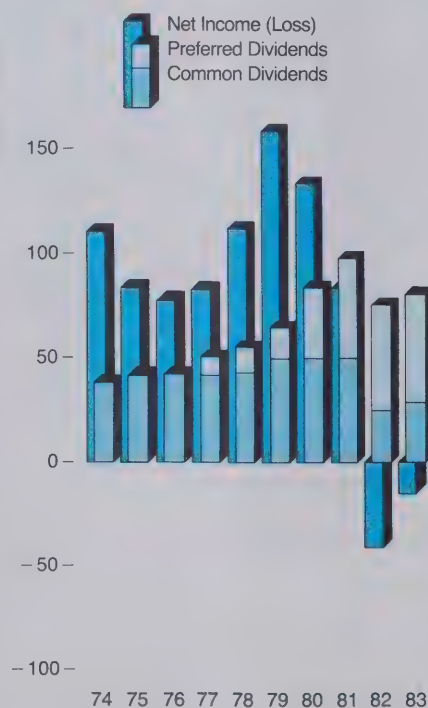
After deducting preferred dividends the loss per common share was \$2.32 and reflects the weighted effect of the issuance in the second quarter of 5.4 million additional common shares. This compares with a loss of \$3.69 per common share last year.

Dividends

In spite of the continuing losses experienced by the Corporation your Directors maintained the common share dividend at the reduced rate of 25¢ per share per quarter established with the first quarterly payment of 1982. The dividends declared in 1983 on the Series A and B Convertible Common Shares amounted to \$28.9 million compared to \$24.8 million in 1982 and reflect the 5.4 million additional common shares issued on April 12, 1983.

Net Income

Millions of Dollars



Return on Sales

per cent



Dividends declared on all series of Preferred Shares amounted to \$52.0 million compared to \$51.1 million declared in 1982. The moderate increase reflects the net effect of a full year's dividend on the Preferred Shares Series E issued August 10, 1982, largely offset by a decline in the floating dividend rate on the Preferred Shares Series A attributable to the drop in the prime interest rate in 1983 relative to 1982.

Financial position

Capital Structure

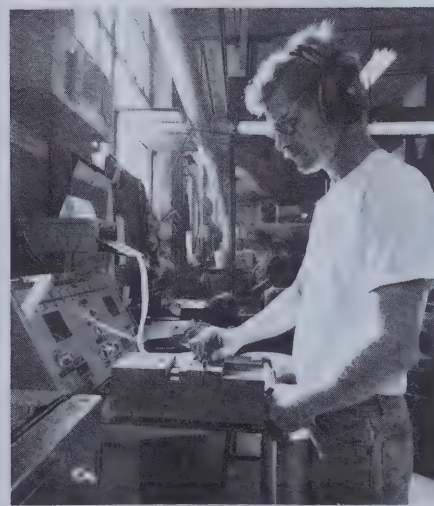
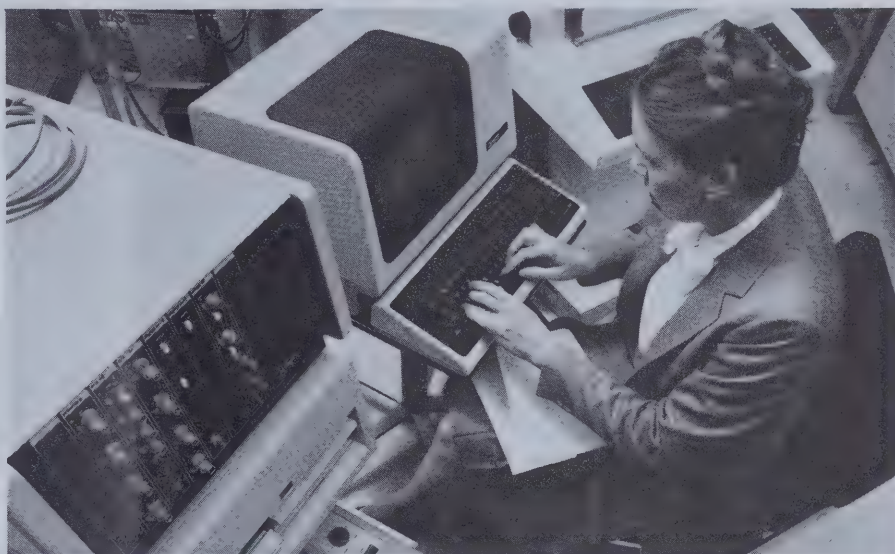
On April 12, 1983 the Corporation sold for public issue 5.4 million units at \$28.25 each for a total of \$152,550,000; each unit consists of one Series A Convertible Common Share and one-half Common Share Purchase Warrant. A whole Warrant entitles the holder to purchase one Stelco Common Share at a price of \$30.75 until October 15, 1986. Part of the proceeds of this capital stock issue was used to repay short-term borrowings and the balance was added to working capital to strengthen liquidity.

During the year the Corporation established an Employee Stock Investment Plan to enable specified key employees to acquire common shares in the Corporation. Under the terms of this plan 47,963 Series A Convertible Common Shares were issued for a total consideration of \$1,315,713 during 1983.

The SPC era: The Statistical Process Control concept is shaping many aspects of steelmaking at Stelco. SPC involves the meticulous control of product quality by controlling the manufacturing process itself, using a variety of statistical disciplines to monitor 'process variability'.

(Top right) Olga Delvecchio, R & D Research Associate, Statistical Process Development and Control, performs an initial process capability study to determine whether an operations process is 'in control' and capable of meeting customers' specifications. Olga works closely with Operations, Metallurgical and Quality Control Departments to ensure the proper development and implementation of SPC processes. (Centre right) Coordinating SPC at Hilton Works is Galvanizing Metallurgist Bill Brockington, left, shown here with TRW Canada rod customers Vern Jones, Chief Metallurgist, centre, and Purchasing Manager George Scott. Although SPC is primarily an on-line activity aimed at improving product quality and service by reducing product variability, certain aspects are conducted off-line; here Bill explains the use of a microcomputer for the off-line analysis of data in a process capability study.

(Bottom left) Alex Kwong, Project Metallurgist, Hot Strip Mill, uses LEW computers to transfer operation and production data onto a metallurgical SPC information data base. Once information is pooled from different areas within LEW, control charts, histograms and other statistics are drawn up by the computer and used as a primary source of information for process capability studies. Examples of SPC being carried out at the operating level: (Bottom centre) Wayne Ball, Tapper Operator, Nut Tapping, at Swansea Works, checks the pitch diameter of a sample of nuts, ensuring that his sample meets the strict control standard. (Bottom right) John Carter, Heat Treat Operator, at the Heat Treat Line at Swansea Works, where on-line SPC is also being practiced. John is plotting charts and also checking fastener samples for hardness.



(See Note 12 to the Financial Statements on page 26.)

Other changes in the capital structure were minimal and represent those associated with the purchase and cancellation of Preferred Shares in accordance with the terms of the various issues, the conversion of some Convertible Preferred Shares Series C into Series A Convertible Common Shares and the declaration of stock dividends applicable to Series B Convertible Common Shares. (See Note 10 to the Financial Statements on page 23.)

Capital Spending

The Corporation continued its efforts to conserve cash in 1983. As a result, total capital spending was substantially reduced to \$44.9 million compared to \$163.2 million in 1982. Of this total amount \$41.8 million was for manufacturing and mining facilities including \$31.4 million spent at Lake Erie Works and \$3.1 million for long-term intercorporate investments. The spending at Lake Erie Works was mainly for the Hot Strip Mill and the remainder of the spending was for environmental control and cost reduction purposes, mostly at Hilton Works.

Return on Common Shareholders' Equity

per cent



Intercorporate Investments

Long-term intercorporate investments decreased by \$0.4 million during the year to a total of \$78.1 million at year end. The decrease represents the excess of the dividends actually remitted over the income earned by the long-term investments.

Working Capital

At December 31, 1983 working capital amounted to \$692.3 million compared with last year's restated balance of \$649.2 million. (See Note 13 to the Financial Statements on page 26.) The increase of \$43.1 million is the net result of the following changes:

- ☐ Cash and short-term investments increased \$70.8 million mainly as a result of the sale of capital stock during the year.
- ☐ Accounts receivable increased \$23.7 million as a result of the moderately higher sales and slightly longer collection periods.
- ☐ Inventories declined \$19.8 million as a result of the continuing tight inventory control policies most evident in the reduction in stocks of raw material.
- ☐ Accounts payable showed an increase of \$48.6 million reflecting the slightly higher operating levels.

Notes Payable were reduced to a zero balance at year end as a result of their repayment with a portion of the proceeds of the capital stock issue.

The liability for income and other taxes of \$36.2 million at year end was higher than the \$17.4 million balance at the end of 1982 because the 1982 balance contained a provision for tax recoveries which were received in 1983.

The ratio of current assets to current liabilities was 2.9 to 1 at December 31, 1983, unchanged from the restated 2.9 to 1 at the end of 1982.

Inflation

Statistics Canada's Price Deflator for Gross National Product showed a gratifying reduction in the annual rate of inflation in 1983 to about 6% from the very high levels experienced in prior years. Despite this reduction, inflation continues to distort the conventional measure of the Corporation's financial results based on historical cost. Areas of significant investment are particularly

Return on Investment

per cent

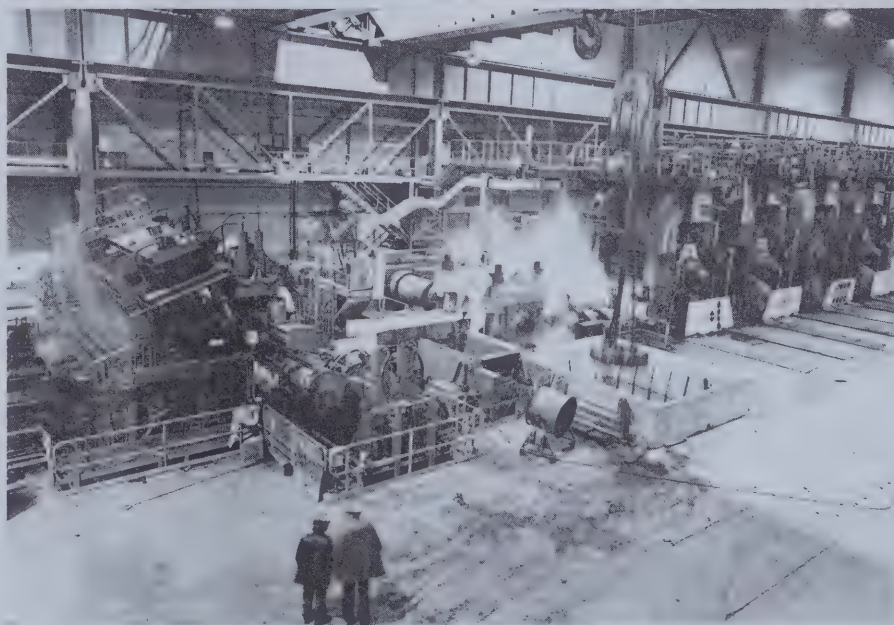


affected and these, in Stelco's case, include fixed assets and inventories. Depreciation, based on the reproduction cost of the Corporation's fixed assets, calculated using Statistics Canada's Implicit Price Indices for Non-Residential Construction and Machinery and Equipment is estimated to exceed the reported depreciation based on historical cost by \$115 million. Similarly, it is estimated that Stelco's investment in all inventories increased \$5 million due to inflation in 1983 after recognizing a \$10 million reduction in the replacement cost of coal and iron ore.

While acknowledging that other factors such as the appreciation of existing assets and the repayment of liabilities with depreciated dollars could be considered in reporting the effects of changing prices, it is management's view that the two amounts set out above succinctly illustrate the nature and magnitude of the impact of inflation.

The Corporation supports the Canadian Institute of Chartered Accountants in their efforts to find a method of reporting the effects of changing prices. However, in management's view the current C.I.C.A. recommendations on reporting the effects of changing prices are very theoretical, complex, costly to prepare and could be confusing to the reader. For these reasons Stelco is not providing the supplementary information called for by the C.I.C.A.

Automotive: product quality is all important. At Stelco, quality control of steel for critical automotive components extends from basic steelmaking to the final product. (Top right) At FAG Bearings Limited, Stratford, Ontario, quality checks are carried out at every stage in the manufacture of automotive water pump bearings. Here, Stelco 1070 bar that has been annealed at Burlington Works, has its quality verified by means of a metallurgical microscope operated by Bob Flagel, Metallurgical Technician, FAG Bearings, right. Watching the examination are Dan Nuttall, FAG Chief Metallurgist, left, and Ron Thomas, Stelco Sales Representative. (Centre right) The new LEW Hot Strip Mill is a vital element in Stelco's expanding participation in the burgeoning automotive market; already some customers are being supplied with material that was previously beyond our size ranges. Work is currently under way on further development of the range of sizes and strengths in Stelco hot rolled steels available from this new installation. (Bottom left) The excellent ductility of Stelco's LBE (Lance Bubbling Equilibrium) cold rolled sheet steel is facilitating the production of a number of complex parts requiring particularly deep drawing. At General Motors Fabrication Plant, Oshawa, Ontario, Andy Matthews, General Supervisor of Quality Control, left, and Jim Barnett, Stelco Sales Manager, Automotive, discuss the role of Stelco LBE material in automotive oil pans. Here the pan is mounted in coordinate measuring equipment. Since adopting LBE material for this application, General Motors has experienced a marked drop in rejects. (Bottom right) Fred Wright, Superintendent, Metallurgical and Quality Control, centre, and Ken Dickson, Senior Service Metallurgist, right, on a service call at Techform Products Limited, Penetanguishene, Ontario, with Purchasing Agent John Lee. Stelco supplies oil tempered wire for torque rods and is currently working with Techform on the development of a new torque rod.



Shareholders

In spite of the increased number of common shares currently outstanding at December 31, 1983 there were 27,072 holders of Convertible Common Shares compared with 29,551 holders the previous year end. As in previous years we attribute the decline in number of shareholders to the trend toward the concentration of shareholdings in the hands of pension funds, insurance companies and other institutional investors and the greater use of nominee accounts by individual shareholders. Shareholders with Canadian addresses held approximately 98% of the total shares outstanding compared with 97% last year.

Corporate planning

The start-up of the new Hot Strip Mill at Lake Erie Works marked the completion of the first stage of this major green-field-site expansion. As a result, planning activity has become strategic in nature and is now being directed towards optimizing and improving other facilities.

The Corporation has under study and is reviewing with its Board of Directors a preliminary plan to upgrade Hilton Works. The object of this program would be to enhance product quality and reduce costs through a reduction in the tonnage of steel products produced by the ingot pouring and primary rolling processes. If and when adopted this program would involve initially the completion of the revamp of No. 1 Bar Mill and the installation of a combination bloom and billet caster and a slab caster. Subsequently, consideration would be given to the installation of a second slab caster. If implemented, the cost of this program, excluding the second slab caster, is tentatively estimated to be in the range of \$200 to \$250 million and would be incurred over approximately three years from the date of approval.

In October 1983, the Corporation created a new autonomous business unit, Stelco Fastener and Forging Company. This internal company will be responsible for the manufacturing and marketing of fasteners and forgings produced or warehoused at Swansea, Brantford, Canada East, Burlington and Ganoque. The new organization is designed to enable Stelco to be more effective in meeting the challenges of the marketplace which is becoming increasingly specialized and competitive.

In May 1984, a second business unit, Stelco Wire Products Company will come into being, comprising wire and wire product operations at Parkdale, Frost, Canada West, Burlington and Dominion Works.

These moves are steps towards the development of profit centres within the Corporation for product lines that lend themselves to this concept.

The 100-year old Canada Works plant in Hamilton will be phased out over approximately two years and where feasible, equipment will be relocated to other operations.

At Frost Works, the plan approved in 1982 to consolidate all operations into one plant has been completed.

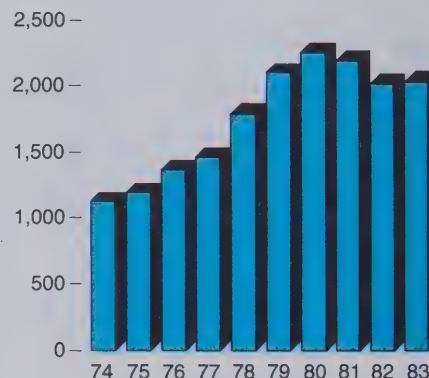
Marketing

The Corporation has been faced with unusually intense competition in all markets in 1983.

Domestically, the business recovery which got underway early in the year did not spread equally to all steel consuming sectors, being concentrated mainly in automotive and consumer durables. Demand from the auto, appliance and housing industries provided the bulk of the flat rolled and shapes loads for most of the year, while the construction and capital goods markets continued weak, seriously affecting the sale of plate and large diameter pipe. In the U.S., with American steel mills operating at well below rated capacities, price discounting was widely prevalent, making it most difficult for Stelco to compete effectively in all but a few selected, traditional markets. The offshore

Sales

Millions of Dollars



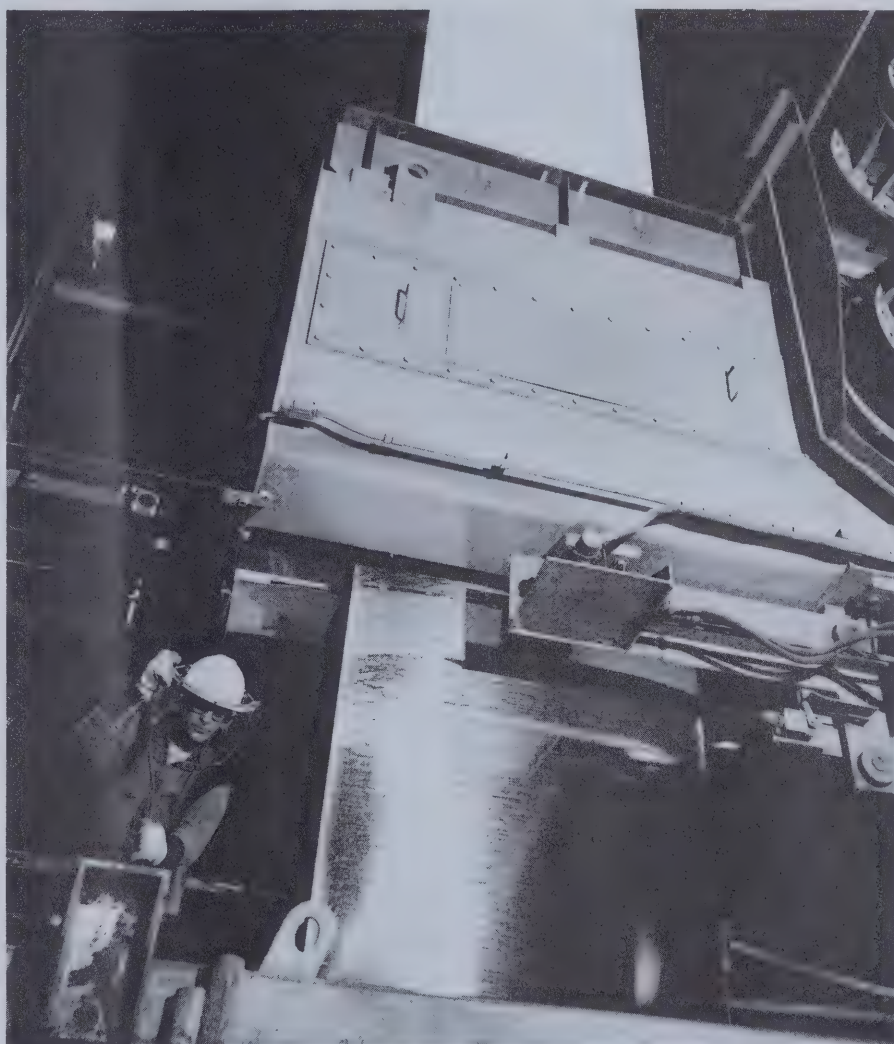
steel marketplace continued to be characterized by product oversupply, resulting in price levels which largely precluded overseas sales.

In these circumstances, marketing efforts were concentrated on the improvement of domestic market share, which was achieved for many product lines. Increased emphasis was placed on quality and service as customers insist on superior performance levels. This trend is expected to continue in the years ahead and the product from the Lake Erie Works Hot Strip mill will provide us with the ability to meet the needs of flat rolled customers.

The generally weak market demand in Canada and abroad resulted in increased offerings and importations of low-priced steel. In an effort to combat this situation, the Corporation initiated two unfair trade complaints in the second half of 1982 and a third in 1983. In June 1983, the Anti-Dumping Tribunal found that the Canadian steel industry had been injured by imports of small diameter (to 16" O.D.) welded standard pipe from South Korea. In December, the Tribunal ruled that the industry had been injured by imports of carbon and alloy steel plate from ten countries. Dumping duties are now in place on these products.

The Corporation in 1983 undertook other marketing efforts to combat competitive influences. A brief was submitted to the Federal Government supporting the report of the Automotive Task Force which called for increased

New products and processes for flat rolled: Today's intensely competitive and dynamic marketplace creates many new uses for Stelco's sheet products. Example (bottom left): A new application for Stelcolour prefinished steel: residential storm doors manufactured by Peachtree Doors of Canada. Mike Ashton, Peachtree's Vice-President of Manufacturing, left, and Stelco Sales Representative Gary MacFarlane discuss the recently developed product, which is being enthusiastically received in the marketplace. (Top right) New 'Heurtey' equipment recently installed at Stelco's No. 3 Galvanizing Line at Hilton Works produces uniformly smooth minimized spangle. Shown is John Rattray, Assistant Operator, adjusting the Heurtey Rig for surface finish, by controlling the flow of zinc on the strip. With tinplate customers insisting on ever closer tolerances, Stelco's Research, Engineering and Operating departments set out to analyze the causes of gauge variations on the 5-stand mill. The investigation led to the installation of gauge equipment with computer circuits to control rolling tension for specific tolerances. Thus an important quality improvement was realized without costly revamping of the mill. Black plate cold rolled on the 5-stand mill at Hilton Works is directed to the No. 3 Tin Line, shown here (bottom right), where a metallic coating of either tin or chromium/chromium oxide can be applied to a base of light gauge black plate by electro-deposition. Tin-free steel commonly referred to as ECCS (electrolytic chromium coated steel) is being used increasingly in the canning industry. Tin Line Feeder Blair Horan adjusts equipment to allow the black plate coil to be payed onto the No. 3 Line.



domestic content in Canadian made vehicles. As well, the Corporation participated in a program for the recycling of steel soft drink cans in Ontario in the interests of preserving them as a preferred packaging medium. Sales Engineering activities are being concentrated on combatting the increasing threats of substitute materials particularly in automotive and construction markets.

In the face of depressed domestic market demand and increased import competition, it was not possible in 1983 to achieve to any significant degree, price increases which are needed to improve the Corporation's profitability. Margins are under severe pressure and their improvement will pose a major marketing challenge for 1984. The sales outlook is better than a year ago at this time but weaknesses in demand are expected to persist well into the year for steel products associated with the capital spending sector of the economy.

Raw materials

Coal

Excess inventories carried over from 1982 and low levels of blast furnace production in 1983 resulted in reduced operations at most of the Corporation's coal mines. These reduced operating levels combined with negotiated reductions of long-term purchase contracts effectively reduced year-end excess coal inventory to zero. As a result, production at the coal mines in 1984 should return to more acceptable levels.

In 1983, the trend toward higher operating efficiency and labour productivity, noted in 1982, continued at all coal mines in which the Corporation held interests.

Chisholm Mine (100% owned): Due to the high quality of the coal and its relatively low production cost, this operation was maintained at near capacity levels throughout the year.

Madison Mine (100% owned): Operations were restarted in May, 1983 after having been shut down since July 1982. Initially the mine operated at 33% of capacity but during the latter part of the year moved to 50% of capacity

as a result of increased coal requirements.

The Beckley, Olga and Mathies Mines, in which the Corporation has varying ownership interests (see page 30), operated generally below capacity levels for most of the year. The Olga Mine restarted operations in March 1983 after having been shut down since July 1982. The Beckley Mine was restored to near capacity operations in March 1983 and remained at that level for the balance of the year while the Mathies Mine was restarted in May 1983 after having been shut down since July 1982.

Development of the Elk River Coal Project (25% owned) continues to be suspended indefinitely.

Iron Ore

Operating levels of all mines were substantially below capacity in 1983 as a result of low iron ore requirements. As in the case of coal, the Corporation was able to eliminate its excess iron ore inventory by year end through negotiating reductions in contract purchases and reducing mine operating levels. In 1983, a noticeable improvement in productivity and variable operating costs was evident at all ownership ore properties.

The Griffith Mine (100% owned): This mine operated at 60% of capacity, including the effect of a 12-week shut-down taken during the summer months. The 1984 operating level is expected to improve. The direct reduction kiln was not operated in 1983.

Wabush Mines, Erie Mining Company, Eveleth Expansion Company, Hibbing Taconite Company and Tilden Iron Ore Partnership, all partially-owned joint ventures and partnerships (see page 30), operated at substantially less than capacity in 1983. However, some improvement in operating levels at most of these mines is expected in 1984.

Limestone

Chemical Lime Works (100% owned): Reduced requirements for lime and limestone at Hilton Works in 1983 were offset by the elimination of outside purchases and as a result Chemical Lime Works operated at capacity for most of the year.

Operations

Hilton Works

Hilton Works' operating level improved during the first quarter to just over 50% of capacity and this was maintained for the balance of the year. This led to the start-up of "B" Blast Furnace and the operation of two of the five furnaces in #3 Open Hearth. The "D" Blast Furnace relining was completed by the end of April, but the furnace was not started up until late in the year to replace "E" furnace. This latter furnace is now being relined after producing 7½ million tons during its campaign, approximately 50% more than in any previous campaign. It is expected that "E" furnace will be ready for production early in the second quarter of 1984. The #1 Bloom and Billet Mill has been permanently shut down.

For cost and quality reasons, the steel supply at Hilton Works was supplemented by slabs from Lake Erie Works and billets from both Montreal and Edmonton, and, in the latter half of the year, by hot rolled coils from Lake Erie Works.

Considerable emphasis was placed on product quality improvement during the year. Measures adopted included:

- ☐ The increased desulfurization of hot metal for the B.O.F. in 1984 based on successful trials undertaken during the year.

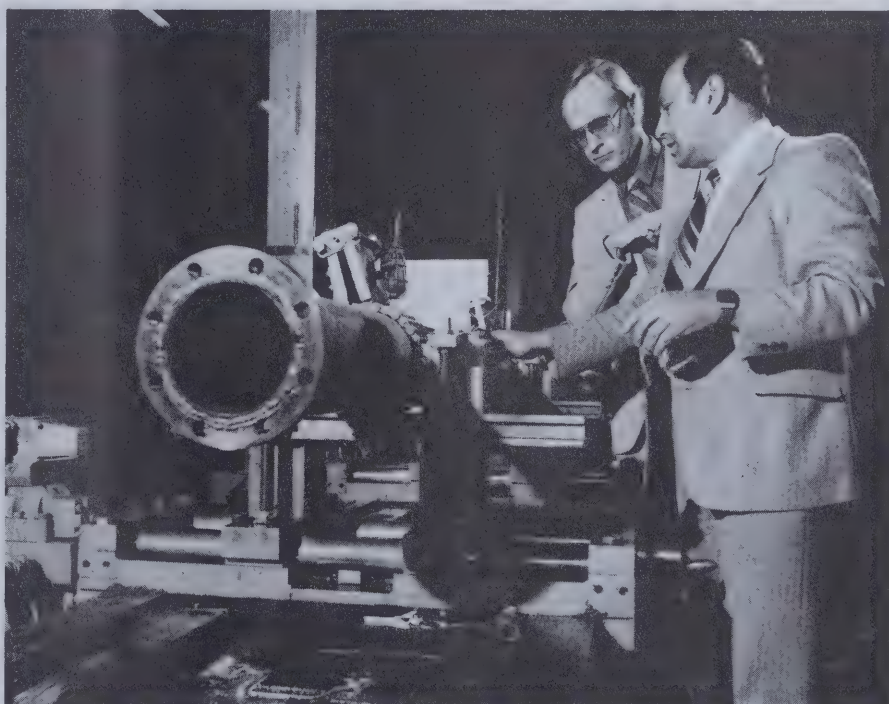
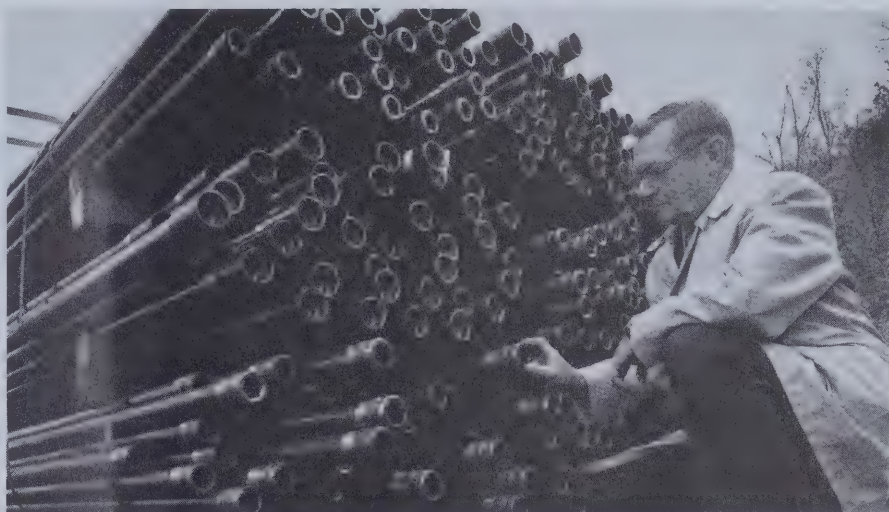
- ☐ The limited supply of bottom pour ingots from the B.O.F. to improve surface quality on rod and bar products.
- ☐ The installation of a micro processor control system to provide improved gauge control on the 5-stand Cold Reduction Mill.

The Corporation's second Lance Bubbling Equilibrium process was put into operation successfully on #5 B.O.F. vessel in April and is giving the anticipated benefits in quality, yield and cost reduction. Modifications incorporated in and tested on this installation to provide automatic spill control have been applied to the original L.B.E. installation on #4 B.O.F. vessel.

Lake Erie Works

Lake Erie Works was loaded to maximum capability throughout the year in order to make full use of its cost and

Stelco tubular products: innovation and specification. Excellent quality, an innovative technical staff and an ever-growing product line; these are the keys to the success of Stelco tubular products in a wide range of applications. An example of new Stelco ideas at work: Bill Young, Assistant Manager, Transportation, Packaging and Loading, (top right) inspects Stelco's newly developed method of shipping oil well tubing on bulkhead flat-cars. Couplings and thread protectors are attached to tube ends before they are staggered in loosely tied bundles and floated on wooden supports; this configuration allows for limited free movement. Currently being tested for adoption by the American Association of Railways, the loading pattern has significantly reduced damage to tubing during transportation. (Centre right) When especially fine tubing tolerances and finishes are required for such applications as hydraulic cylinders, seamless and welded tubing from Page Hersey Works is precision honed at Honing Corporation Limited, Hamilton, Ontario. Stelco's Senior Service Metallurgist John Young, left, and Aaron Zaitchik, President of Honing, stand beside a honing machine designed to hone the inside of tubing to final tolerances as precise as one-sixth the diameter of a human hair. Prior to honing, tubes are processed on a Stelco draw bench to improve sizing up to fifty percent. (Bottom right) Lab Technician John Jasek uses a tensile tester to conduct a stress-strain test on a tensile specimen of seamless cold drawn tubing at Page Hersey Works. The tester has upgraded the lab's calibration capacity for legal certification to API and ASTM standards. (Bottom left) Rick Petch, Supervisor, Customer Service, Tubular Products, left, and SPC Coordinator Jim Patterson demonstrate a new, highly sensitive measuring device developed by Jim Patterson. The instrument is used to confirm that tubing meets the customers' specifications. It has proved highly satisfactory and is now part of the shop's standard equipment.



quality advantages. The most notable achievement in 1983 was the start-up in May of the 80" Hot Strip Mill and the ancillary Skin Mill. Our marketing programs are now able to take advantage of the wider widths available from this facility.

The other departments at Lake Erie (Coke Ovens, Blast Furnace and Slab Caster) were brought to maximum production, consistent with equipment currently installed. Recent slab production has been at the rate of more than 110,000 tons monthly with higher levels contemplated for the future.

Eastern Region

Steelmaking and Rolling Mills operations at McMaster Works were at capacity levels throughout the year. In the first half of the year large tonnages of rebar were produced and shipped to fill export orders carried over from the fourth quarter of 1982. As a result of studies to determine the most cost-effective use of billet casting, a significant shift to higher carbon grades and special bar quality took place commencing in July. In the third quarter the rolling mix also shifted to a higher proportion of spring flats and special bar quality for the automotive trade.

Demand for high quality billet cast material far exceeds existing capacity and steps are being taken to increase McMaster Steel output by 40,000 tons per year through the use of jet burners to reduce melting time and a turret to enable ladle rotation to permit sequence casting. Foundations for this equipment were installed during the scheduled August maintenance shutdown, and the expansion will be completed during a similar shutdown in the summer of 1984.

Progress was made during the year to increase the load on the electro galvanizing lines at Dominion Works resulting in near-capacity operation by the third quarter.

Notre Dame Bolt & Nut operations remained at depressed levels throughout the year.

Central Region

Strong demand for wire products resulted in capacity operations at Parkdale Works and at the Continuous Rod Processing Plant in Burlington where a new heat-treat line was commissioned early in the year. Nail output increased significantly in the second quarter to near-capacity levels at Parkdale Works.

Operations at Canadian Drawn Works were depressed during the first two quarters but improved significantly in September and remained at a high level for the balance of the year.

The fastener plants — Swansea, Brantford and Canada Works East Mill — experienced strong demand from the automotive industry. As a result, operations steadily increased throughout the year with most plants, particularly Swansea, producing almost exclusively automotive products. The fastener plants have become leaders in the application of statistical process control techniques to meet high automotive quality standards.

Gananoque Works also experienced strong demand for forgings related to automotive end uses.

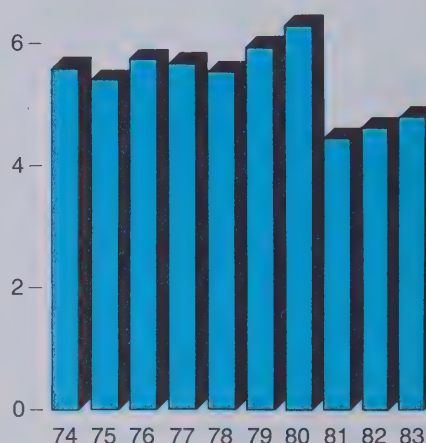
There were no significant line pipe orders and production at Welland Tube Works was limited to small orders and stock produced by reduced crews. By the end of the year the plant virtually was shut down and all personnel laid off, with the exception of a few key people, temporarily assigned to other plants.

At Page Hersey Works shipments of seamless, continuous weld and hollow structural section business remained weak while automotive-related loads on the tube mills and the 8" Electric Resistance Weld (E.R.W.) mill were very strong. Page Hersey is also utilizing statistical process control techniques to meet automotive quality requirements. A number of small line pipe orders were produced on the 8" and 16" E.R.W. mills for expansion of a gas distribution system in Quebec.

Every effort is being made to upgrade manufacturing and testing facilities. Recent additions to improve quality at Page Hersey Works have included:

Raw Steel Produced

Millions of Net Tons



- ☐ An improved Eddy Current non-destructive testing facility at the Electric Weld Finishing Department.
- ☐ A new tensile testing machine at the Test Lab.
- ☐ An Electromagnetic Inspection Unit in the Seamless Department.

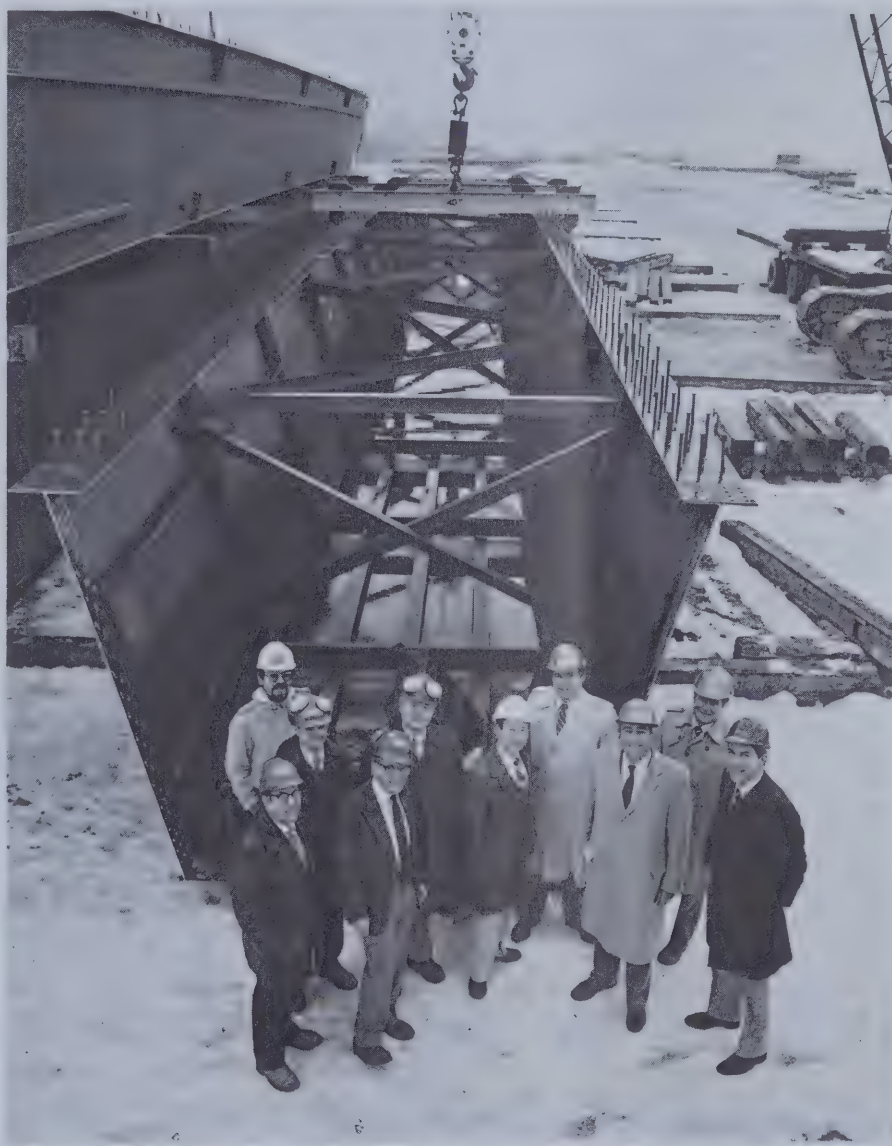
Western Region

Commencing in May, Edmonton Steel Works operated at capacity when low scrap prices and reduced freight rates made it economical to ship cast billets to Hamilton. The rolling mill operated at 20 turns partly due to a prolonged work stoppage at a competitor's plant.

At the Edmonton Finishing Works, sucker rod production continued to be relatively low until late in the third quarter when it increased in response to increased domestic drilling activity. There were no significant export sucker rod sales in 1983.

Camrose Works 42" mill was shut down throughout the year and the 16" mill operated only intermittently on a single-turn operation.

At Stelco Fabricators Ltd., Regina, operating levels fluctuated throughout the year due to limited demand for capital goods and very competitive conditions among steel fabricators.



Product precision: Product quality means precision in applications large and small. Exemplifying this fact: Stelco plate in use for a major bridge project and a new Stelco bar product with an exceptionally fine finish. (Top) One of the first welded girders destined for use on the "twinning" of the Burlington Skyway is seen in the Milton, Ontario, plant of Frankel Steel Ltd. Stelco was the major supplier to the project, involving approximately 8,500 tons of steel and some 76,000 structural bolts. Steel competed successfully against concrete for these approach spans which use 350A and 350AT Stelcoloy weathering steel plate up to 2 inches in thickness. The photograph was taken on the occasion of a visit by a number of Stelco personnel. Dick Chataway, Stelco Sales Manager, is seen, right, with Geoff Jackson, Frankel President, third from right. The drawn bars from Canadian Drawn Works are renowned for high performance and reliability in service. The most recent addition to the line is XL-20 Precision Shafting. Steel bar of exceptional quality, cold drawn and precision-ground to a 20 RMS finish, XL-20 is specified for parts operating under the most exacting conditions. The production of XL-20 Precision Shafting involves meticulous craftsmanship and close cooperation between experts in many disciplines. (Bottom left) For extra corrosion protection and wear resistance, XL-20 Precision Shafting may be chrome plated. After plating and polishing, the finish is here being measured by George Fleming, Chrome Plater, right, using a profilometer. Canadian Drawn Metallurgist Ted Cowan, centre, checks equipment as Plant Superintendent Terry Thomas of D.C. Chrome looks on. Each bar is directed to a skid for individual inspection (bottom right) and measured with a micrometer for specified gauge: shown here is Bench Inspector Mike Davey at final inspection stage.



Associated companies

Baycoat Limited, Torcad Limited and Fers et Métaux Recyclés Ltée, each 50% owned by Stelco, benefited from the moderate recovery in the economy.

Baycoat's revenue increased as a result of the upturn in demand for consumer products.

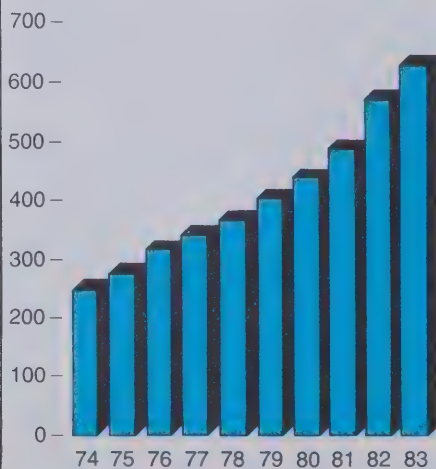
The fastener plating division of Torcad benefited from improved automotive demand. Heat treat equipment has been installed in conjunction with the chrome plating of hydraulic shafting — a promising market.

The Ferrous Scrap Division of Fers et Métaux Recyclés Ltée operated below capacity throughout 1983 as Stelco reduced inventories. The Non-Ferrous Division, which reclaims primarily zinc and aluminum, had a successful year as market prices for these metals strengthened.

Canada Systems Group Limited, 25% owned by Stelco, completed the assimilation of the operations of Computel Systems Ltd. acquired in the second quarter of 1982. The adjustments accompanying this move impacted on the results for the year unfavourably. The outlook for 1984 is for considerable improvement.

Employees' Average Weekly Earnings

Dollars per Week



Employment Costs

Dollars in thousands

		1983	1982
Wages and Salaries	For time worked	\$579,253	\$602,128
	For vacations and statutory holidays	61,106	56,747
		\$640,359	\$658,875
Supplementary Employment Costs	Pensions	\$ 64,494	\$ 68,039
	Group insurance plans and other benefits	50,617	48,327
	Unemployment insurance and workmen's compensation	27,081	24,460
		\$142,192	\$140,826
Total Employment Costs		\$782,551	\$799,701
Average Number of Employees		19,519	22,104
Employee Benefits	Number of pensioners at year end	6,744	6,154
	Pensions paid during the year	\$ 44,312	\$ 32,998
	Life insurance in force at year end	\$817,885	\$827,416
	Death benefits paid during the year	\$ 3,971	\$ 3,780

Employee relations

Communications

The enhancement of relations with employees received concerted management attention in 1983. A task force was constituted to review and co-ordinate all communication practices within the Corporation and new programs were developed to improve communications with employees by means of written, audio-visual and face-to-face techniques.

Collective Bargaining

In order to reassure Stelco's customers about the stability of future steel supply, and to safeguard market participation and operating levels, exploratory discussions have been held over the past several months with the United Steelworkers of America to commence immediate negotiations for an early collective agreement to replace the current contracts which expire July 31, 1984.

An agreement was reached to provide and launder protective clothing for coke oven employees at Hilton Works. This joint company-union program is the first of this kind undertaken in the Canadian Steel Industry.

Employment

The average number of employees in 1983 was 19,519 and this compares with 22,104 in 1982 and 26,263 in 1981.

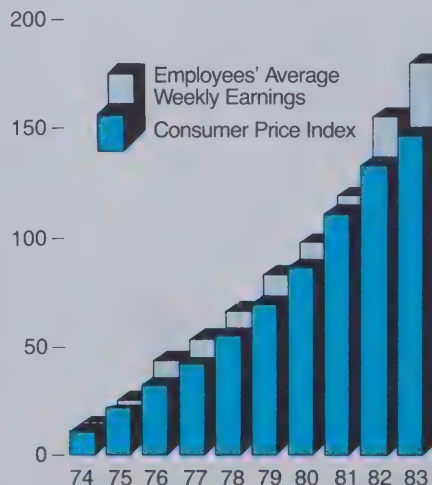
The permanent salaried personnel numbered 4,865 at the end of 1983 compared with a high of 6,000 in mid-1981.

Health and Safety

There was a significant decline in both the frequency and severity of lost-time accidents during the year, largely due to the introduction of a system at the various plants that stresses internal responsibility for health and safety rather than a reliance on government imposed regulations.

Employees' Earnings/Consumer Price Index

Per Cent Increase (Base 1972 = 100)



Technology

In 1983, research, engineering, operating and metallurgical personnel focussed their activities on maximizing the effectiveness of existing facilities while minimizing the need for capital spending. Emphasis was placed on improving the productivity of operating units, increasing yield, and reducing processing costs. Programs to improve product quality at all steelmaking and processing stages also were vigorously pursued.

In addition to the technical improvements mentioned in the Operations section of this report, the following technological developments highlighted the past year:

☐ A modified iron casting practice was developed for the blast furnaces at Hilton Works. The resultant slower, almost continuous, cast provides better control over the liquid iron level in the hearth, contributing to improved furnace stability and more efficient operation.

☐ A slag skimming facility was installed at the Hilton Works Basic Oxygen Steelmaking Shop as the first stage of a program aimed at providing low-sulfur liquid iron for the steelmaking furnaces. Low-sulfur iron simplifies steel refining, reduces flux requirements, improves yield, provides for better production schedule compliance, and enhances the surface quality of solidified steel.

☐ A laser-based instrument for measuring refractory wear in the Corporation's basic oxygen steelmaking furnaces was brought to full production use. Operators use the instrument to establish a refractory profile so that they can selectively spray-patch only those areas where wear is indicated. This provides substantial savings in spray refractory material consumption and, by ensuring that the furnace is properly patched, extends overall refractory lining life.

☐ In-line temper rolling and stretch levelling facilities were incorporated into No. 3 Galvanizing Line at Hilton Works to supplement a new process for making very fine, uniform-size spangle galvanized strip. The in-line shape and finish processing provides substantial

cost savings on galvanize destined for prefinished steel end use. The improved zinc surface has also opened up new markets for Stelco's galvanized output.

☐ New procedures were developed at Gananoque Works for press forging automotive front wheel hubs and, by logical extension, for potential production of other disc-shaped parts. Stelco is now in a good position to participate in the market for 'new era' automotive parts.

☐ Special facilities and procedures were developed for the production of high quality torque-tension (lock) nuts at Swansea Works.

Stelco continues to provide expert technical advice to new coilbox licensees in Canada, Australia, West Germany, United States, Holland, Sweden, Belgium, and the United Kingdom as part of the marketing of Stelco technical developments that are patentable and have commercial application outside the Corporation.

A program begun in 1983 to identify technologies with sales potential to other steelmakers holds promise for further income over the next few years.

Property Management

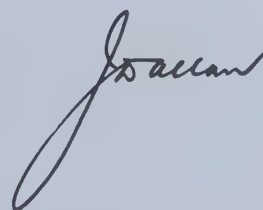
Several fully depreciated surplus buildings and some land made available by the Frost Works consolidation were sold during the year. Although capital investment remained at low levels, the Lake Erie Industrial Park continued to receive enquiries from across North America.

Environmental control

Environmental expenditures continued to take a significant proportion of reduced capital outlays in 1983.

The water treatment plant associated with the Hot Strip Mill at Lake Erie Works was completed and is working efficiently.

At Hilton Works, a facility for the removal of ammonia from coke plant wastewater was completed and spray suppression devices were installed which reduce emissions during coke pushing from three coke oven batteries. Improvements were made to the blast furnace water recycle system to reduce significantly the discharge water volume and facilities were installed to permit transfer of the reduced flow to the east side treatment plant. An improved fume scrubbing system was added to the acid regeneration plant and substantial progress has been made in reusing, recycling and treating spent process chemical wastes in-house.



President and
Chief Operating Officer.

Toronto, March 5, 1984

Stelco Inc.

Consolidated Statement of Income and Retained Earnings

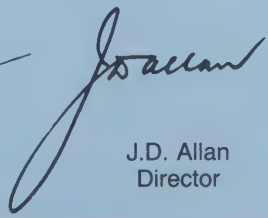
Years ended December 31
(Thousands of Dollars)

	1983	1982
Revenue		
Sales	\$2,033,169	\$2,020,349
Equity income (loss) from corporate joint ventures and partnerships (Note 4)	(575)	(2,558)
Income from short-term investments	7,647	5,570
	<u>2,040,241</u>	<u>2,023,361</u>
Expense		
Cost of sales, exclusive of the following items	1,808,365	1,821,791
Administrative and selling	121,563	129,217
Research and development	8,172	8,670
Depreciation	103,824	101,037
Interest on long-term debt	61,045	63,626
Other interest	1,889	4,667
Income taxes — current	5,641	(14,493)
— deferred	(56,018)	(50,349)
	<u>2,054,481</u>	<u>2,064,166</u>
Net Income (Loss) for the Year	(14,240)	(40,805)
Retained Earnings at beginning of year	780,731	898,912
Preferred Shares Purchased and Cancelled (net of acquisition costs — Note 10)	(4)	131
	<u>766,487</u>	<u>858,238</u>
Dividends (Note 10)	80,991	75,939
Expenses relating to issue of capital stock (after deducting income taxes of 1983 — \$3,345; 1982 — \$1,362)	3,848	1,568
Retained Earnings at end of year	<u>\$ 681,648</u>	<u>\$ 780,731</u>
 Net income (loss) per common share (Note 1)	 \$ (2.32)	 \$(3.69)
Net income (loss) per common share — fully diluted (Note 1)	N/A	N/A

Stelco Inc.

Consolidated Statement of Financial Position

At December 31
(Thousands of Dollars)

	1983	1982
Current Assets		
Cash	\$ 11,673	\$ 11,416
Short-term investments, at cost (approximates market value)	89,072	18,544
Accounts receivable	286,435	262,721
Inventories (Note 2)	670,632	690,439
Prepaid expenses	2,949	3,071
	<u>1,060,761</u>	<u>986,191</u>
Current Liabilities		
Notes payable	—	36,934
Accounts payable and accrued	295,276	246,699
Income and other taxes	36,218	17,426
Cash dividends payable	20,287	20,021
Long-term debt due within one year (Note 6)	16,687	15,867
	<u>368,468</u>	<u>336,947</u>
Working Capital (Note 13)	<u>692,293</u>	<u>649,244</u>
Other Assets		
Fixed assets, less accumulated depreciation (Note 3)	1,624,975	1,687,474
Long-term intercorporate investments (Note 4)	78,103	78,534
Unamortized long-term debt issue expense	5,655	6,111
	<u>1,708,733</u>	<u>1,772,119</u>
Total Investment	<u>2,401,026</u>	<u>2,421,363</u>
Other Liabilities		
Provision for blast furnace relines — beyond one year	34,618	24,137
Long-term debt (Note 6)	509,908	535,034
Deferred income taxes	291,838	351,201
	<u>836,364</u>	<u>910,372</u>
Shareholders' Equity	<u>\$1,564,662</u>	<u>\$1,510,991</u>
Derived from:		
Capital Stock (Note 10)		
Preferred shares	\$ 583,691	\$ 585,501
Common shares and warrants	299,169	144,467
Stock dividend to be issued	154	292
Retained Earnings	<u>681,648</u>	<u>780,731</u>
On behalf of the Board:	<u>\$1,564,662</u>	<u>\$1,510,991</u>
		
	J.P. Gordon Director	J.D. Allan Director

Stelco Inc.

Consolidated Statement of Changes in Financial Position

Years ended December 31
(Thousands of Dollars)

	1983	1982
Source of Working Capital		
Current operations		
Net income (loss)	\$ (14,240)	\$ (40,805)
Depreciation	103,824	101,037
Increase in provision for blast furnace relines	10,481	24,137
Deferred income taxes	(56,018)	(50,349)
Remitted equity income	3,524	5,322
	<u>47,571</u>	<u>39,342</u>
Net proceeds from issue of common shares and warrants (Note 10)	146,674	—
Net proceeds from issue of preferred shares (Note 10)	—	82,070
Other (net)	906	1,023
	<u>195,151</u>	<u>122,435</u>
Disposition of Working Capital		
Expenditures for fixed assets	41,782	154,107
Long-term intercorporate investments (net)	3,093	9,141
Reduction of long-term debt	25,126	23,029
Purchase of preferred shares (Note 10)	1,800	3,603
Cash dividends (Note 10)	80,301	74,751
	<u>152,102</u>	<u>264,631</u>
Increase (Decrease) in Working Capital	43,049	(142,196)
Working Capital at beginning of year	649,244	791,440
Working Capital at end of year (Note 13)	\$ 692,293	\$ 649,244
Changes in Working Capital		
Current Assets		
Cash	\$ 257	\$ 3,387
Short-term investments	70,528	(207,556)
Accounts receivable	23,714	99,852
Inventories	(19,807)	(103,928)
Prepaid expenses	(122)	1,092
	<u>74,570</u>	<u>(207,153)</u>
Increase (Decrease) in Current Assets		
Current Liabilities		
Notes payable	(36,934)	36,934
Accounts payable and accrued	48,577	(76,537)
Income and other taxes	18,792	(17,044)
Cash dividends payable	266	(8,118)
Long-term debt due within one year	820	(192)
	<u>31,521</u>	<u>(64,957)</u>
Increase (Decrease) in Current Liabilities		
Increase (Decrease) in Working Capital	\$ 43,049	\$ (142,196)

Stelco Inc.

Notes to Consolidated Financial Statements

December 31, 1983

1 Summary of Significant Accounting Policies

Principles of Consolidation The consolidated financial statements include the accounts of Stelco Inc. and its subsidiaries, all of which are wholly owned. Also included are the Corporation's pro-rata portions of the assets, liabilities and expenses of its unincorporated joint ventures. (See Note 4, also see page 30 for listing of Subsidiary Companies and Unincorporated Joint Ventures.)

Corporate joint ventures and partnerships, in all of which the Corporation has an interest of 50% or less, are accounted for by the equity method. (See Note 4, also see page 30 for listing of Corporate Joint Ventures and Partnerships.)

Foreign Currencies Current assets and liabilities originating in foreign currencies are translated at year end exchange rates. All other assets and liabilities originating in foreign currencies are translated at rates prevailing when the assets were acquired or the liabilities incurred. Income and expense items other than depreciation are translated at average rates prevailing during the year. The gains or losses resulting from these translations are reflected in the Consolidated Statement of Income.

Inventories Inventories are valued at the lowest of cost, replacement cost and net realizable value. Physical quantities are normally confirmed once a year by count and for certain raw materials by aerial survey.

Fixed Assets and Depreciation Fixed assets are recorded at historical cost and include construction in progress. Depreciation is provided using the straight-line method applied to the cost of the assets at rates based on their estimated useful life and beginning from the point when production commences. Construction in progress on which no depreciation has been recorded amounted to \$62.0 million (\$355.0 million at December 31, 1982). The following annual depreciation rates are in effect:

Buildings	2½ to 5%
Equipment	6 to 7½%
Automotive and mobile equipment	10 to 20%
Raw material plants and properties	4½ to 5%

Research and Development Expenditures for research and development are expensed as incurred.

Interest The interest cost of financing both working capital and capital expenditures is expensed as incurred.

Income Taxes The Corporation provides for income taxes under the tax allocation basis of accounting whereby income taxes are provided for in the year in which the related income is reflected in the financial statements. Deferred income tax provisions result from timing differences in the recognition of income and expense for income tax and financial statement purposes. Investment tax credits are recorded by the "flow-through" method which recognizes such credits in the year in which they are claimed for tax purposes by a reduction in income taxes expense.

Net Income Per Common Share Net income (loss) per common share is computed on the basis of net income (loss) for the year, less prescribed dividends on the preferred shares, divided by the weighted average of total Series A and Series B Convertible Common Shares outstanding during the year. Since the effect is antidilutive in 1983 and 1982, fully diluted net income per common share has not been shown.

2 Inventories

	1983 (in thousands)	1982 (in thousands)
Raw materials and supplies	\$ 295,884	\$ 363,129
Finished and semi-finished products	374,748	327,310
	<u>\$ 670,632</u>	<u>\$ 690,439</u>

3 Fixed Assets

	1983 (in thousands)	1982 (in thousands)
Raw material plants and properties, at cost	\$ 273,107	\$ 272,854
Manufacturing plants and properties, at cost	2,614,866	2,577,607
	<u>2,887,973</u>	<u>2,850,461</u>
Less accumulated depreciation	<u>1,262,998</u>	<u>1,162,987</u>
	<u>\$1,624,975</u>	<u>\$1,687,474</u>

Stelco Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 1983

4 Long-term Intercorporate Investments and Related Commitments

(a) Investments

	1983 (in thousands)	1982 (in thousands)
Corporate joint ventures and partnerships, at equity	\$ 67,861	\$ 68,276
Portfolio investments, at cost	10,242	10,258
(quoted market value 1983 — \$17.8 million, 1982 — \$15.9 million)		
	<u>\$ 78,103</u>	<u>\$ 78,534</u>

(b) Joint Ventures and Partnerships

Substantially, the joint ventures and partnerships are an integral part of steel operations and exist to provide raw materials, certain finishing operations and some administrative services. Accordingly, to avoid duplication in the disclosure of sales, such transactions between the Corporation and the joint ventures and partnerships are accounted for in the Consolidated Statement of Income by:

- Including the cost of materials, operations and services provided by the joint ventures and partnerships in "Cost of sales" or "Administrative" expense as appropriate.
- Disclosing the Corporation's share of the annual income (loss) from corporate joint ventures and partnerships as a separate item of "Revenue". (During 1982 a corporate joint venture issued treasury shares and as a result, the Corporation's share of this corporate joint venture's equity increased by \$2,712,000 which was included in 1982 "Revenue".)

The following is a summary of the Corporation's proportionate share of the financial position of the joint ventures and partnerships:

	Unincorporated Joint Ventures	Corporate Joint Ventures and Partnerships	1983 (in thousands) Total	1982 (in thousands) Total
Assets	\$ 67,745	\$ 195,217	\$ 262,962	\$ 298,180
Liabilities	3,314	127,356	130,670	165,590
Equity	<u>\$ 64,431</u>	<u>\$ 67,861</u>	<u>\$ 132,292</u>	<u>\$ 132,590</u>

Included in the liabilities of the corporate joint ventures and partnerships is \$88.0 million of long-term debt against which certain assets relating to those entities have been pledged.

(c) Commitments

The Corporation, as a participant in certain of the corporate joint ventures and partnerships, is entitled to receive its proportionate share of coal and iron ore produced and is committed to pay its share of their costs, including minimum charges for principal and interest to cover the servicing of their long-term debt. The Corporation's share of such minimum charges averages US \$10 million annually to 1996.

5 Capital Programs

The estimated cost to complete approved capital programs is \$34 million which will be spent over a period of three years and includes an estimated amount of \$4 million to cover inflation in construction costs and other contingencies.

6 Long-term Debt

	1983 (in thousands)	1982 (in thousands)
5 $\frac{7}{8}$ % sinking fund debentures due May 1, 1990	\$ 31,062	\$ 32,617
9 $\frac{1}{4}$ % sinking fund debentures due November 1, 1990	47,704	49,323
10 $\frac{1}{8}$ % sinking fund debentures due September 15, 1994	53,237	56,426
9 $\frac{3}{4}$ % sinking fund debentures due April 1, 1995	83,944	87,948
10 $\frac{1}{4}$ % sinking fund debentures due April 30, 1996	87,729	92,294
10% notes due October 15, 1987 (1983 — US \$9 million, 1982 — US \$11 million)	10,013	11,103
10 $\frac{3}{4}$ % sinking fund notes due November 20, 1995 (1983 — US \$100 million, 1982 — US \$108 million)	102,906	111,190
13 $\frac{1}{2}$ % sinking fund debentures due October 1, 2000	110,000	110,000
	<u>526,595</u>	<u>550,901</u>
Less amount due within one year, net of prepayments	<u>16,687</u>	<u>15,867</u>
	<u>\$ 509,908</u>	<u>\$ 535,034</u>

6 (continued)

After allowing for prepayments, annual sinking fund and other repayments over the next five years amount to \$16.7 million in 1984, \$30.2 million in 1985, \$31.2 million in 1986, \$31.2 million in 1987 and \$28.9 million in 1988.

Translation of the long-term debt payable in United States funds at December 31 rates of exchange would increase the long-term debt by \$23.2 million for 1983 and \$24.0 million for 1982. This is not necessarily indicative of the amount which will be repaid when the obligations are retired.

7 Retirement Plans

Pension costs charged against income under the Corporation's pension plans include payments made to trust funds for current and past service requirements as determined by an independent actuary. Unfunded past service costs in respect of pensions ultimately payable to the present employees are estimated to be \$250 million at December 31, 1983. This amount is being funded over periods not exceeding fifteen years.

8 Commitments

(a) Leases

Capital Leases At December 31, 1983 the Corporation had no significant capital lease commitments.

Operating Leases Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year at December 31, 1983 are:

	(in thousands)
1984	\$ 7,579
1985	5,334
1986	4,936
1987	4,360
1988	4,329
Subsequent to 1988	30,218
Total	<u>\$ 56,756</u>

(b) Other

The Corporation is making arrangements to guarantee \$7 million in bank debt owed by an unaffiliated corporation. The guarantee would decline to zero uniformly over a five year period commencing December 1984 and would be secured by a second charge on the assets of the unaffiliated corporation.

9 Segmented Information

The Corporation operates exclusively as a vertically integrated producer of a wide range of steel products which is its only line of business and dominant segment. Export sales of domestic production to foreign countries amounted to \$417 million in 1983 (\$492 million in 1982).

10 Capital Stock and Dividends

(a) Under the Canada Business Corporations Act the Corporation is authorized to issue in series unlimited numbers of Preferred Shares and Common Shares without nominal or par value.

(b) Preferred Shares

	Number of Shares	1983 Stated Capital (in thousands)	Number of Shares	1982 Stated Capital (in thousands)
Outstanding — Series A	8,000,000	\$200,000	8,000,000	\$200,000
— Series B	1,799,600	44,990	1,860,950	46,524
— Convertible Series C	5,934,554	148,364	5,935,104	148,377
— Series D	4,213,500	105,337	4,224,000	105,600
— Series E	3,400,000	85,000	3,400,000	85,000
	<u>23,347,654</u>	<u>\$583,691</u>	<u>23,420,054</u>	<u>\$585,501</u>

Series A

These shares are entitled to a cumulative floating rate dividend, calculated and payable on a quarterly basis. The rate equals the sum of 1¼% and one-half the median Canadian bank prime rate charged by certain Canadian chartered banks.

The shares are redeemable on or after May 1, 1980 at \$25.75 per share, reducing by \$0.1875 annually on May 1, to \$25.00 per share.

The shares are retractable at \$25.00 per share at the holder's option, on May 1 in each of the years 1987, 1992 and 1997.

Stelco Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 1983

10 (continued)

Series B

These shares are entitled to a fixed cumulative dividend at the rate of \$1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable on or after November 1, 1984 at \$26.25 per share, reducing by \$0.25 annually on November 1, to \$25.00 per share.

On November 1 each year, the Corporation is required to purchase at \$25.00 per share 61,350 Series B Preferred Shares, if tendered.

On November 1, 1983, 61,350 shares with a stated capital of \$1,533,750 were tendered and purchased for a total consideration of \$1,533,750 and were cancelled.

Convertible Series C

These shares are convertible into Series A Convertible Common Shares of the Corporation at any time on or before April 30, 1990, at a conversion price of \$33.75 per share, subject to adjustment in certain events. The 5,934,554 shares with a stated capital of \$148,363,850 outstanding at December 31, 1983 were convertible at the option of the holders into 4,395,966 Series A Convertible Common Shares.

The shares are entitled to a fixed cumulative dividend at the rate of \$1.94 per share annually, payable in equal quarterly instalments.

The shares are redeemable at \$26.25 per share on and after May 1, 1983 and prior to May 1, 1985, only if the weighted average price at which the Series A Convertible Common Shares traded in a specified period was not less than 125% of the conversion price then in effect. The shares are redeemable on or after May 1, 1985 at \$26.25 per share, reducing by \$0.25 annually on May 1, to \$25.00 per share.

Commencing July 1, 1990, the Corporation is required to make all reasonable efforts to purchase during each calendar quarter, at a price not exceeding \$25.00 per share plus unpaid dividends and costs of purchase, 1% of the number of these shares outstanding on April 30, 1990. The resulting annual obligation expires December 31 in each year.

During 1983, 550 shares with a stated capital of \$13,750 were converted into 407 Series A Convertible Common Shares.

Series D

These shares are entitled to a fixed cumulative dividend at the rate of \$2.50 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after November 1, 1985 at \$26.00 per share, reducing by \$0.20 annually on November 1, to \$25.00 per share.

The shares are retractable at the option of the holder on November 1, 1985 and 1990 at a price of \$25.00 per share.

The Corporation may elect in 1985 and 1990 to create further series of Preferred Shares ("1985 Series" and "1990 Series") into which the Preferred Shares Series D would be convertible on a share-for-share basis on and after the retraction date and having the same attributes in all material respects as the Preferred Shares Series D except that the dividend rate may be increased effective November 1, 1985 and increased or decreased effective November 1, 1990 and, in either case, the redemption price may be increased and a further non-call period may be provided.

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding \$25.00 per share plus costs of purchase:

- (i) from January 1, 1981 to December 31, 1985, 22,000 Preferred Shares Series D;
- (ii) from January 1, 1986 to December 31, 1990, 0.75% of the number of Preferred Shares Series D outstanding at the close of business on November 1, 1985; and
- (iii) commencing January 1, 1991, 1.25% of the number of Preferred Shares Series D outstanding at close of business on November 1, 1990.

This purchase obligation is cumulative only within each calendar year, and would attach equally to shares of the 1985 Series and the 1990 Series as the case may be.

During 1983, 10,500 shares with a stated capital of \$262,500 were purchased for a total consideration of \$266,514 and were cancelled. The resulting difference of \$4,014 is included in retained earnings.

Series E

On August 10, 1982, 3,400,000 Preferred Shares Series E were issued for cash.

These shares are entitled to a fixed cumulative dividend at the rate of \$3.625 per share annually, payable in equal quarterly instalments.

The shares are redeemable on and after August 1, 1988 at \$26.20 per share, reducing by \$0.30 annually on August 1, to \$25.00 per share.

The shares are retractable at the option of the holder on August 1, 1988 at a price of \$25.00 per share.

10 (continued)

The Corporation may elect on or before June 17, 1988 to create a further series of Preferred Shares into which the Preferred Shares Series E would be convertible on a share-for-share basis during a conversion period commencing no later than the retraction date and ending no earlier than six months after the retraction date (subject to prior redemption).

During each calendar quarter the Corporation is required to make all reasonable efforts to purchase, at a price not exceeding \$25.00 per share plus costs of purchase:

- (i) from October 1, 1982 to September 30, 1988, 17,000 Preferred Shares Series E; and
- (ii) commencing October 1, 1988, 1% of the number of Preferred Shares Series E outstanding at the close of business on September 30, 1988.

This purchase obligation is cumulative only within each calendar year. During 1983 no shares were purchased.

(c) Common Shares and Warrants

	1983	1982
Stated Capital (in thousands)	\$ 299,169	\$ 144,467
Outstanding — Series A Convertible Shares	29,711,075	23,676,416
— Series B Convertible Shares	616,117	1,166,802
	<u>30,327,192</u>	<u>24,843,218</u>
— Common Share Purchase Warrants	<u>2,699,950</u>	<u>—</u>

Series A and Series B

The Convertible Common Shares of each series are voting, convertible into one another on a share-for-share basis and rank equally in all respects except that dividends on the Series B Convertible Common Shares may be payable by way of a stock dividend in Series B Convertible Common Shares in accordance with the conditions attaching to such shares and dividends on the Series A Convertible Common Shares are payable in cash. On April 12, 1983, the Corporation issued 5,400,000 units consisting of one Series A Share and one-half Common Share Purchase Warrant. Proceeds of this issue have been allocated as follows: Series A Shares \$137,700,000; Common Share Purchase Warrants \$14,850,000. One whole Warrant entitles the holder to purchase one Series A Share at \$30.75 until October 15, 1986. During 1983, 50 Warrants were exercised.

During 1983, 47,963 Series A Shares were issued for \$1,315,713 under the Employee Stock Investment Plan. (See Note 12.)

During 1983, 35,749 Series B Shares were issued in payment of stock dividends. Under terms of the issue, certain fractional Series B Shares with a stated capital of \$4,976 and equivalent to 195 whole shares were purchased and cancelled.

(d) Dividends

Dividends declared, including extra distributions on common shares, consisted of the following:

	1983 (in thousands)	1982 (in thousands)
Preferred Shares		
Series A	\$ 14,093	\$ 19,401
(per share 1983 — \$1.76163, 1982 — \$2.42515)		
Series B	3,580	3,700
(per share 1983 — \$1.94, 1982 — \$1.94)		
Convertible Series C	11,514	11,514
(per share 1983 — \$1.94, 1982 — \$1.94)		
Series D	10,534	10,642
(per share 1983 — \$2.50, 1982 — \$2.50)		
Series E	12,325	5,861
(per share 1983 — \$3.625, 1982 — \$1.72385)		
	<u>52,046</u>	<u>51,118</u>
Common Shares		
(per share 1983 — \$1.00, 1982 — \$1.00)		
Series A	28,255	23,633
Series B (stock dividend)	690	1,188
	<u>28,945</u>	<u>24,821</u>
	<u>\$ 80,991</u>	<u>\$ 75,939</u>

Stelco Inc.

Notes to Consolidated Financial Statements (continued)

December 31, 1983

11 Related Party Transactions

Related party transactions occurring during the years 1983 and 1982 and balances outstanding at December 31 both resulting from transactions with various entities recorded as long-term intercorporate investments (see Note 4(a)) are as follows:

	1983 (in thousands)	1982 (in thousands)
(a) During the year		
Materials and services purchased	\$ 119,101	\$ 89,843
Capital advances (repayments)	2,394	10,095
Dividends and interest received	3,073	2,917
Advances (repayments) on demand notes	900	(200)
(b) At December 31		
Capital advances	\$ 54,381	\$ 51,987
Accounts receivable	6,194	26,094
Demand notes receivable	7,200	6,300

The corporate joint ventures and partnerships, which are accounted for on an equity basis, exist to provide certain raw materials, finishing operations and administrative services. (See also Note 4.)

12 Employee Stock Investment Plan

Under the Corporation's Employee Stock Investment Plan established in 1983, the Corporation is authorized to advance monies to a trustee to be loaned interest free to specified key employees and applied in payment of the subscription price of Series A Convertible Common Shares to be purchased from the Corporation by the trustee on behalf of such employees. The loans are secured by a pledge of the shares to the trustee and are normally repayable within five years of their inception. The Plan provides, on the occurrence of any of certain specified events, for special payments to a participant to discharge his outstanding loans.

In May 1983, \$655,975 was advanced under the Plan for the purchase of an aggregate of 25,599 Series A Convertible Common Shares at a price of \$25.625 per share, the closing sale price on The Toronto Stock Exchange on April 25, 1983.

In December 1983, \$659,738 was advanced under the Plan for the purchase of an aggregate of 22,364 Series A Convertible Common Shares at a price of \$29.50 per share, the closing price on The Toronto Stock Exchange on December 9, 1983.

13 Comparative Figures

Certain 1982 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1983. Working capital at the end of 1982 has been increased by \$24.1 million as a result of this reclassification.

14 Subsequent Events

(a) Stelco Share Participation Plan

Effective January 1, 1984 the Corporation established a Share Participation Plan for all eligible non-bargaining unit employees. The Plan will be funded by the Corporation through quarterly contributions, based upon the employee's position level, to a trustee. Accumulated monthly entitlements will be invested quarterly by the trustee in Series A Convertible Common Shares to be purchased from the Corporation at the closing sale price on The Toronto Stock Exchange on the third last working day of the calendar quarter.

The Corporation has made application to the federal and provincial tax authorities to have the Plan deemed an Employee Profit Sharing Plan under the respective income tax acts.

(b) Underwriting Agreement

On March 6, 1984, the Corporation entered into an agreement providing for the sale to underwriters of 3,100,000 Common Shares to be issued at \$27.50 per share.

THORNE RIDDELL

Chartered Accountants

To The Shareholders
Stelco Inc.

We have examined the consolidated statement of financial position of Stelco Inc. at December 31, 1983 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Toronto, Canada
February 6, 1984
(March 6, 1984 as to note 14(b))

Ten Year Statistical Summary

Dollars in millions except as indicated*	1983	1982	1981 ⁽¹⁾	1980	1979	1978	1977	1976	1975	1974
Operations (thousands of net tons)										
Raw steel produced	4,778	4,592	4,454	6,278	5,862	5,533	5,640	5,724	5,396	5,542
Total raw steel processed (including purchases)	4,657	4,667	4,996	6,109	6,306	6,199	5,490	5,669	5,263	5,837
Steel shipments	3,598	3,575	3,804	4,529	4,553	4,466	3,995	4,028	3,706	4,078
Income and Related Data										
Sales	\$ 2,033.2	2,020.3	2,173.8	2,228.6	2,091.2	1,775.7	1,444.1	1,359.8	1,201.8	1,133.2
Administrative and selling	\$ 121.6	129.2	120.3	111.0	98.7	88.5	81.8	75.2	66.2	57.5
Depreciation	\$ 103.8	101.0	93.6	70.3	60.5	56.7	55.1	54.9	51.4	52.1
Interest on long-term debt	\$ 61.0	63.6	65.4	55.3	52.5	52.5	51.4	46.8	24.2	10.2
Income taxes	\$ (50.4)	(64.8)	17.8	39.5	62.0	39.3	1.6	17.0	36.4	57.8
Net income (loss)	\$ (14.2)	(40.8)	82.8	132.2	156.9	111.9	81.9	77.3	82.6	110.9
Per common share ⁽²⁾ —	*\$ (2.32)	(3.69)	1.45	4.05	5.74	4.07	3.02	3.13	3.35	4.50
— fully diluted	*\$ N/A	N/A	N/A	3.88	N/A	N/A	N/A	N/A	N/A	N/A
Return on sales	% (0.7)	(2.0)	3.8	5.9	7.5	6.3	5.7	5.7	6.9	9.8
Return on average investment ⁽³⁾	% 0.7	(0.4)	4.6	6.9	9.1	7.3	6.3	6.7	7.4	10.8
Return on average common shareholders' equity ⁽²⁾	% (7.0)	(9.3)	3.4	9.7	14.7	11.3	8.8	9.5	10.7	15.5
Dividends declared — preferred	\$ 52.0	51.1	47.7	34.0	15.4	11.5	8.2	—	—	—
— common	\$ 28.9	24.8	49.5	49.4	49.4	43.2	42.0	42.0	42.0	38.2
Per common share	*\$ 1.00	1.00	2.00	2.00	2.00	1.75	1.70	1.70	1.70	1.55
Earnings reinvested in (withdrawn from) the business	\$ (95.2)	(116.7)	(14.4)	48.8	92.0	57.2	31.7	35.3	40.6	72.7
Capital Expenditures	\$ 44.9	163.2	210.2	191.7	204.0	145.3	144.6	172.5	232.8	135.5
Financial Position, year end										
Working capital	\$ 692.3	649.2	791.4	930.7	617.1	593.6	603.3	457.5	380.1	301.1
Fixed assets — net	\$ 1,625.0	1,687.5	1,634.9	1,517.3	1,397.4	1,265.7	1,186.1	1,102.0	990.5	812.1
Long-term debt	\$ 509.9	535.0	558.1	581.0	490.4	496.9	501.3	504.4	361.1	165.5
Preferred shareholders' equity	\$ 583.7	585.5	504.2	508.0	233.1	200.0	200.0	—	—	—
Common shareholders' equity	\$ 981.0	925.5	1,042.5	1,054.7	1,009.6	917.7	860.3	829.3	793.9	752.1
Per common share	*\$ 32.35	37.25	42.07	42.66	40.85	37.13	34.83	33.57	32.14	30.50
Employment										
Average number of employees	19,519	22,104	26,263	25,094	25,032	23,712	22,942	22,691	23,192	23,251
Total employment costs	\$ 782.6	799.7	674.6	687.9	641.6	559.0	495.0	459.0	401.9	350.6
Employees' average weekly earnings ⁽⁴⁾	*\$ 627.04	574.71	492.25	443.94	408.75	374.98	343.67	320.90	280.85	249.15
Number of Common Shareholders, year end	27,072	29,551	32,277	36,040	40,495	38,147	36,408	36,501	37,864	39,086

(1) 1981 operations were interrupted by strikes, 125 days at Hilton Works and for various periods at other locations.

(2) After preferred dividends in 1983 to 1977 inclusive. (See Note 1 on page 21 for explanation of computation of net income (loss) per common share.)

(3) After adding back interest on long-term debt (net of tax) to net income (loss).

(4) Excludes the cost of supplementary employment benefits.

Directors	Executive Officers	Vice-Presidents and Other Officers
*J.D. Allan, Toronto President and Chief Operating Officer of the Corporation †Alex E. Barron, Toronto President, Canadian General Investments Limited *A. Jean de Grandpré, O.C., Q.C., Montreal Chairman, President and Chief Executive Officer, Bell Canada Enterprises Inc. †Thomas M. Galt, Toronto Chairman and Chief Executive Officer, Sun Life Assurance Company of Canada *J. Douglas Gibson, O.B.E., Toronto Corporate Director *J. Peter Gordon, O.C., Toronto Chairman of the Board and Chief Executive Officer of the Corporation *A.J. MacIntosh, Q.C., Toronto Partner, Messrs. Blake, Cassels & Graydon, Barristers & Solicitors †The Hon. Ernest C. Manning, P.C., C.C., Edmonton Chairman, Manning Consultants Limited Frederick C. Mannix, Calgary Corporate Director ††William F. McLean, Toronto Corporate Director *†D.R. McMaster, Q.C., Montreal Counsel, Messrs. McMaster Meighen, Barristers & Solicitors Lucien G. Rolland, Montreal President and Chief Executive Officer, Rolland, Inc. Henry G. Thode, C.C., Ph.D., F.R.S. Hamilton Professor Emeritus, McMaster University †Kenneth A. White, C.D., Oakville Corporate Director *William H. Young, Hamilton President, The Hamilton Group Limited	J.P. Gordon Chairman of the Board and Chief Executive Officer J.D. Allan President and Chief Operating Officer G.H.G. Layt Senior Vice-President G.W.R. Bowlby Vice-President, Marketing A.J. Harris Vice-President, Engineering, Research and Purchasing R.E. Heneault Vice-President, Administration J.E. Hood Vice-President, Operations H.J.M. Watson Vice-President, Finance J.W. Younger, Q.C. Vice-President, Secretary and General Counsel	W.C. Ashcroft Assistant Treasurer G. Binnie Comptroller K. Coles Vice-President — Manufacturing W.A. Darby Assistant Comptroller — Corporate Accounting F.A. Hoyle Vice-President — Manufacturing L.M. Killaly Assistant Secretary P.D. Matthews Treasurer A.G. Northcott Assistant Comptroller — Works Accounting D.A. Woodward Vice-President — Sales *Member — Executive Committee †Member — Audit Committee †Member — Compensation and Manpower Resources Committee

Corporate Directory

Head Office

Royal Trust Tower,
Toronto-Dominion Centre,
Toronto, Ontario, M5K 1J4.

General Offices

Hamilton, Ontario
Montreal, Quebec — Eastern Region
Edmonton, Alberta — Western Region

Sales Offices

Hamilton, Ontario
Montreal, Quebec
Calgary, Alberta
Edmonton, Alberta
Quebec, Quebec
Saint John, New Brunswick
St. John's, Newfoundland
Sudbury, Ontario
Windsor, Ontario
Winnipeg, Manitoba

Plants

Hamilton, Ontario
Hilton Works
Canada Works
Canadian Drawn Works
Frost Works
Parkdale Works
Beachville, Ontario
Chemical Lime Works
Brantford, Ontario
Brantford Works
Burlington, Ontario
Burlington Works
Gananoque, Ontario
Gananoque Works
Nanticoke, Ontario
Lake Erie Works
Red Lake, Ontario
The Griffith Mine
Toronto, Ontario
Swansea Works
Welland, Ontario
Page-Hersey Works
Welland Tube Works
Contrecoeur, Quebec
McMaster Works
Lachine, Quebec
Dominion Works
Montreal, Quebec
Notre Dame Works
St. Henry Works
Camrose, Alberta
Camrose Works
Edmonton, Alberta
Stelco Edmonton, Steel Works
Stelco Edmonton, Finishing Works
Regina, Saskatchewan
Stelco Fabricators Ltd.

Research Centre

Burlington, Ontario

Subsidiary Companies, wholly owned

Stelco Fabricators Ltd., Regina, Sask.
Frost Steel and Wire Company, Limited,
Hamilton, Ont.
Clôture Frost Inc. — Frost Fence Inc.,
Montreal, Que.
Durastal Installations Limitée,
Lachine, Que.
The Steel Company of Canada, Limited,
Toronto, Ont.
Stelco Technical Services Limited,
Hamilton, Ont.
Stelco Coal Holding Company,
Cleveland, Ohio
Stelco Coal Company, Pittsburgh, Pa.
Pikeville Coal Co., Louisville, Ky.
(Chisholm Mine)
Kanawha Coal Company, Ashford, W. Va.
(Madison Mine)
Ontario Eveleth Company, Minneapolis,
Minn.
Ontario Hibbing Company, Minneapolis,
Minn.
Stelco Erie Corporation, Minneapolis,
Minn.
Stelco Nederland B.V., Amsterdam,
The Netherlands
Stelco S.A., Geneva, Switzerland
Stelco (U.K.), Limited, London, England
Can Hamilton Trading Limited,
London, England
Stelco de Argentina, S.A.C.I. y de R.,
Buenos Aires, Argentina
Stelco de Venezuela, S.R.L.,
Caracas, Venezuela

Unincorporated Joint Ventures

% Owned
Wabush Mines, Nfld. & Que. 25.6
Hibbing Taconite Company, Minn. 6.7
Elk River Coal Project, B.C. 25.0

Corporate Joint Ventures and Partnerships

% Owned

Iron Ore

Tilden Iron Ore Partnership,
Mich. 15.6
Erie Mining Company, Minn. 10.0
Eveleth Expansion Company,
Minn. 23.5
Ontario Iron Company, Minn. 10.0

Coal

Mathies Coal Company, Pa. 13.3
Beckley Coal Mining Company,
W. Va. 12.5
Olga Coal Company, W. Va. 10.0

Other

Baycoat Limited, Ont. 50.0
Canada Systems Group Limited,
Ont. 25.0
Tercad Limited, Ont. 50.0
Fers et Métaux Recyclés Ltée,
Que. 50.0
Arnaud Railway Company, Que. ... 25.6
Wabush Lake Railway Company,
Limited, Nfld. 25.6
Knoll Lake Minerals Limited,
Nfld. 14.9
Northern Land Company Limited,
Nfld. 12.8
Twin Falls Power Corporation,
Limited, Nfld. 4.4

Registrar and Transfer Agent

National Trust Company, Limited
Toronto, Montreal, Hamilton, Winnipeg,
Edmonton and Vancouver; and its
agent Royal Trust Company in Halifax
and Regina.

Annual Meeting

The Annual Meeting of the Shareholders of
the Corporation will be held at Commerce
Hall (concourse level), Commerce Court
West, in Toronto at 10:30 a.m., local time, on
Monday, April 30, 1984.

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